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ABSTRACT

This teacher's guide presents instructional materials which examine issues in professional sports for students in high school economics and social studies classes. The issues include how the pro sports market evolved; how leagues gained market power; why athletes earn as much as they do; what are the sources of pro sports revenues; why tickets cost so much; why there is such a high level of economic conflict in modern pro sports; and the globalization of pro sports. The teacher's guide, illustrated with vintage photographs, is divided into nine innings (as in baseball) or lessons. It uses baseball as a case study in professional sports to provide historical background information about the evolution of professional sports teams. The guide states that the instructional materials support 14 of the 20 voluntary national content standards for economics. A standards grid follows the lessons. "The Sports Page" section discusses baseball, basketball, football, and hockey. Contains team photos, resource lists, and Internet addresses for additional Web sites. (BT)

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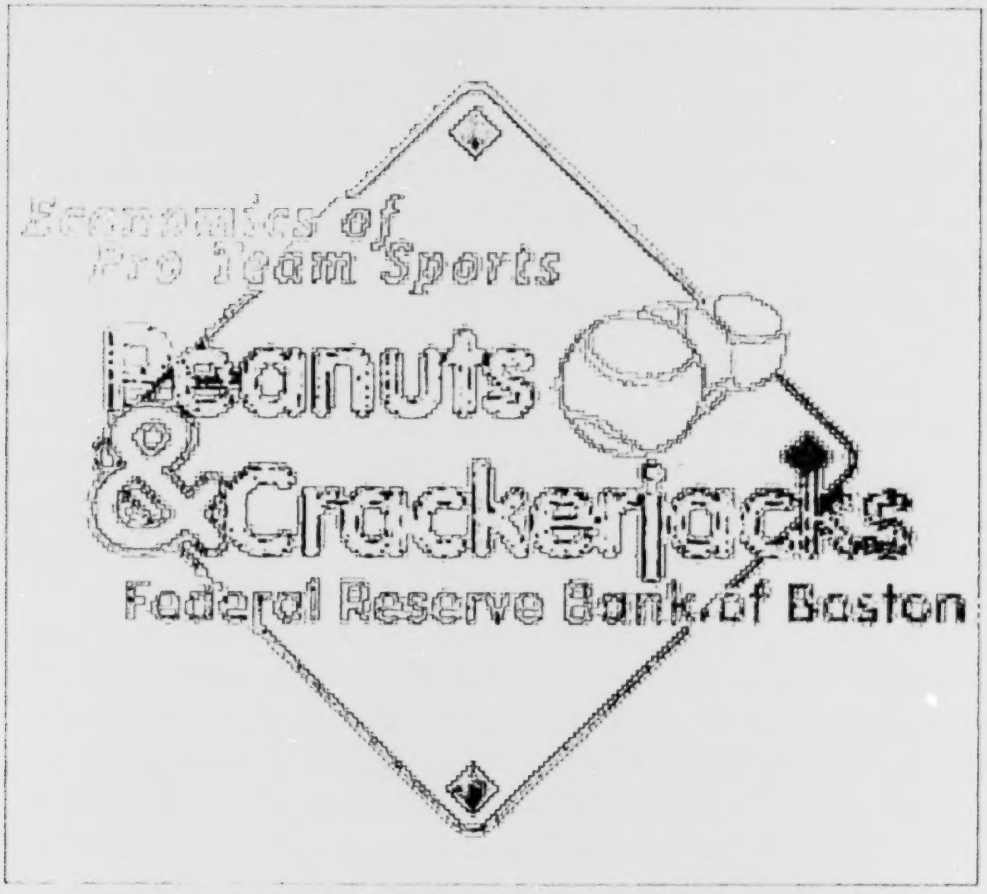

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Table of Contents

Inning 1

Inning 2

Inning 3

Inning 4

Inning 5

Inning 6

Inning 7

Inning 8

Inning 9

Standards Grid

The Sports Page

Team Photos

Resources

Links to Other Sites

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The Ordinary Business of Life

Peanuts & Crackerjacks is intended primarily for students in high school economics and social studies classes. It examines a number of issues, including:

- How the pro sports market evolved;
- How leagues gained market power;
- Why athletes earn as much as they do;
- The sources of pro sports revenues;
- Why tickets cost so much;
- Why there is such a high level of economic conflict in modern pro sports; and
- The globalization of pro sports.

During the 1940s and 1950s, members of the All-American Girls Professional Baseball League played the game as it was meant to be played.
Photo courtesy of the Florida State Archives.
Click on photo for a bigger image.

The beauty of Marshall's humble definition is in the connection it makes between marketplace activity and other aspects of life. **Peanuts & Crackerjacks** focuses on that connection. Its main goal is to help students use economics as a framework for making sense of their own lives.

New Realities

Crowds at sporting events used to roar with excitement. Now they're just as likely to snarl.

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Sharing a laugh at Fenway, 1940s.
Even if nothing memorable happens on the field, our games give us a chance to gather in a public place and celebrate the things we still have in common.
Photo by Leslie Jones, courtesy of The Boston Public Library, Print Division.
Click on photo for a bigger image.

With every passing day, sports seem to offer less haven from harsh reality. Owners threaten to move their teams to other cities unless taxpayers foot the bill for new sports facilities. Players and their agents hold out for salaries that exceed the gross domestic product of a small country. And if ticket prices keep rising, a family of four will have to file for financial aid before attending a professional game. . . . Provided, of course, that the game hasn't been canceled because owners and players are at each other's throats again.

It's all enough to make fans yearn for the golden age when sports were a simpler pleasure and everyone played for the love of the game. Except that there never was a golden age of sport. Professional sports have always been, for the most part, about money.

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So, nothing has changed, right?

Don't believe it!

Art Shires signing autographs at Braves Field, Boston, 1932.
Photo by Leslie Jones, courtesy of The Boston Public Library, Print Department.
Click on photo for a bigger image.

The economic balance of power between owners and players has shifted dramatically since the mid-1970s. Owners are no longer absolute rulers, and players have much more control over their own destinies. It has been a difficult adjustment for everyone—owners, players, sports reporters, and fans.

Baseball statistician (and philosopher king) Bill James gets right to the heart of the matter:

The economics of baseball today still seem bizarre to many of us because we grew up in an age when a few rich and powerful men, using propaganda and the press, were able to steel their idea of the Natural Order of Things. Their idea, carefully designed for our comfort, still echoes in our subconscious, banging off what is, and creating the

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notion that something must be amiss in a world of such large dollar signs.

That goes for football, basketball, and hockey, too. Like it or not, the underpaid hometown heroes of yesteryear have been replaced by highly paid hired guns, and things will never again be the same as we remember them—or as we imagine they once were.

Peanuts & Crackerjacks explores all these issues and more.

Voluntary National Content Standards

The specialized language of economics may make it easier for economists to communicate with one another, but what about everyone else? All those Greek letters and jargon-laced sentences are enough to terrify nonprofessionals.

And that's unfortunate because learning the basics can be painless. The **Voluntary National Content Standards in Economics** provide a useful tool for identifying and mastering essential economic principles—without the jargon.

Scorecard vendor, Braves Field, Boston, 1935. *Photo by Leslie Jones, courtesy of The Boston Public Library, Print Department.* Click on photo for a bigger image.

The standards were developed by the National Council on Economic Education (NCEE), in collaboration with several other educational organizations and foundations, including:

- the National Association of Economic Educators;
- the National Council for the Social Studies;
- the American Economic Association Committee on Economic Education;
- the Federal Reserve System;
- the National Association of Business Economists;
- readers of the Advanced Placement Exams in Economics; and

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- a specially convened group of university economists.

Funding for the Voluntary National Content Standards project was provided by:

- the AT&T Foundation;
- the Calvin K. Kazanjian Economics Foundation;
- the Foundation for Teaching Economics.

Peanuts & Crackerjacks supports 14 of the 20 content standards. These are explained in our Content Standards Grid.

Activities and Discussion Questions

Inning 1

Warm-Up Activity/Pre-Game Interview

Let's start with a few warm-up questions:

- What do you think about the salaries professional athletes earn, and why do you think professional athletes make as much money as they do?
- What do you think about the price of tickets to professional sporting events?
- How has "big money" affected professional sports?
- What is the most serious economic issue facing pro sports?

Explain your answers. A simple "yes" or "no" won't do.

Write down your responses or record them on audiotape. And be sure to save them so you can revisit them later.

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1.1 Beauty Is in the Eye of the Beholder

Utility is a fairly simple economic concept: We choose to spend our money on a product or service because we get a certain amount of use, pleasure, or satisfaction from consuming it.

Describe the utility we derive from each of the following:

- a snow shovel
- a mousetrap
- your favorite song
- an official jersey from your favorite team
- the autograph of your favorite player
- a Sunday afternoon watching NFL football
- a baseball glove that you have owned for at least five seasons

Try This Exercise:

On the next page is an old ad for D & M baseball gloves, which used to be made in New Hampshire. Does the ad talk only about the function of the glove? What approach is the company using to sell its product?

Soldiers call them the
"Lucky Dog"
Sport Goods
One secret of better baseball is in using better baseball goods—here they are.
D&M
DO you know why the American boys turned the tide that won the war? It was not that they were trained soldiers—for they were not—but they were trained in alertness, in team work and quickness of judgment; in accuracy of aim and in that sense—whatever you call it—that anticipates what the other fellow is going to do and does it first. They had all kinds of courage. They knew no fear, and they wouldn't be beaten. It was the old baseball spirit adapted to a new use. The preparation for this war had been going on for years on every "diamond," "gridiron," school ground and in vacant lots and back yards all over America.
All of these qualities that helped to win the war will help anyone to win in peaceful pursuits. With the world's new appreciation of sports, D & M Sport Goods should be of greater service than ever. The goods shown here are just a few of the good things in the new D & M line.
We furnish everything for sports and the quality always exceeds the price. If you would do better in sports, roll more goods, accomplish more work, excel in your profession or lead your class in school, take some time for sports. And if you would like to play better baseball you should have our new edition of
Official Rules for Baseball and Tennis
There's a copy of these Rules and a new Catalogue Free for every man, boy or girl who will send for them.
This Catalogue is of exceeding interest—one of the best we ever published. Find the article you want and if your dealer hasn't it send to us—but ask him first.
THE DRAPER-MAYNARD COMPANY
Dept. C, PLYMOUTH, N. H.

Courtesy of New Hampshire Historical Society

Baseball glove ad from the Draper-Maynard Company, circa 1920s, when the equipment for America's national pastime was still made in the USA.

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1.2 A "Typical" Fan? / A Willing Sap?

Part A

Question:
What is a sports fan, and is there any such thing as a "typical" fan?

Try This Exercise:

Describe some of the behaviors and characteristics of a "typical" fan, **OR**

Draw a picture of a "typical" fan, **OR**

Take a photo of a "typical" fan.

Then get together with everyone in your class and compare your descriptions/images.

Part B

Question:
Somebody once said: "A sports fan is a willing sap." What do you think that means, and how does it relate to the concept of utility?

1.3 What Are They Selling?

What are professional sports leagues actually selling?

a) a sports experience for hard core fans

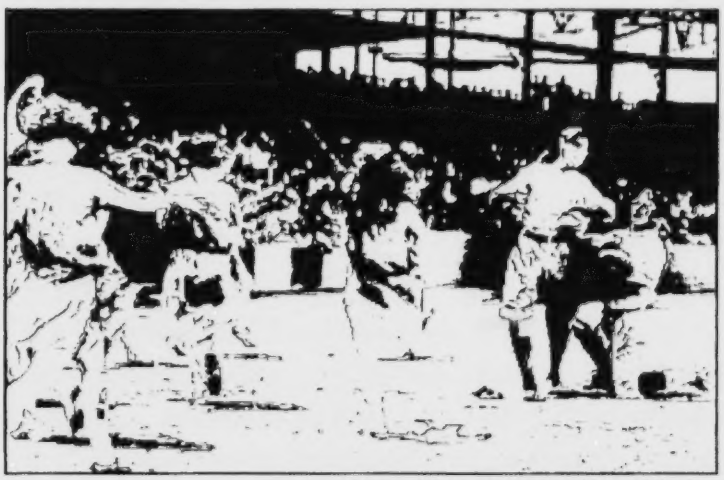
b) an entertainment experience for casual fans who just want a fun "night out"

c) a combination of the two

d) a diversion that will hold fans' attention long enough for advertisers to bombard them with commercial messages

e) whatever it takes to make money

Get together with the people in your class and try to come up with an answer. Be sure to explain your reasoning.



Prints and Photographs Division, Library of Congress

Dancing girls and ballplayers entertaining the fans, Washington, 1924.

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1.4 Gauging the Market

Sports teams compete against one another on the field or on the court or on the ice. But when it comes to business, their true competitors are movies, concerts, live theater, restaurants, outdoor recreation, and all the other leisure options available to fans. For better or worse, pro sports are part of the entertainment industry. They have to compete for entertainment dollars and a piece of their fans' limited leisure time.

To get an idea of how much competition there is for entertainment dollars and leisure time . . .

Try This Exercise:

1. Get together with the people in your class and make a list that includes pro team sports and five other entertainment/leisure activities. Choose whatever you like but try for a good distribution.

2. Survey 50-100 people (divide the work so that no one gets stuck with too many surveys). Ask the following questions:

- "If you have an entire Saturday or Sunday and $200 to spend on entertainment/leisure, which of the activities on this list would you choose as your top two?"
- "What had more of an impact on your choice: time or cost?"

3. After you finish the survey, look at the results and try to determine what they tell you about the economic future of professional team sports.

1.5 Bill Veeck's 12 Commandments

Bill Veeck tried to live by a set of 12 commandments. He recommended them to anyone who worked in baseball, but with a little modification they speak to people in just about any line of work.

The commandments originally appeared in a *Boston Globe* article by columnist Larry Whiteside.

1. Take your work very seriously. Go for broke and give it your all.
2. Never ever take yourself seriously.
3. Find yourself an alter ego and bond with him for the rest of your professional life.
4. Surround yourself with similarly dedicated soulmates, free spirits of whom you can ask why and why not. And who can ask the same thing of you.
5. In your hiring, be color-blind, gender-blind, age- and experience-blind. You never work for Bill Veeck. You work with him.
6. If you're a president, owner, or operator, attend every home game and never leave until the last out.
7. Answer all your mail; you might learn something.
8. Listen and be available to your fans.
9. Enjoy and respect the members of the media, the stimulation and the challenge. The "them against us" mentality should exist only between the two teams on the field.
10. Create an aura in your city. Make people understand that unless they come to the ballpark, they will miss something.
11. If you don't think a promotion is fun, don't do it. Never insult your fans.
12. Don't miss the essence of what is happening at the moment. Let it happen. Cherish the moment and commit it to your memory.

Try This Exercise:

Choose a non-sports business or occupation and apply Bill Veeck's 12 commandments to it. Explain your reasoning.

Courtesy of National Baseball Hall of Fame Library

Bill Veeck

1.6 All Net

Each of the "Big Four" – MLB, the NBA, the NFL, and the NHL – quickly grasped the marketing potential of the Internet. Each league has a web site, and so does almost every team.

The league web sites are:

www.majorleaguebaseball.com
www.nba.com
www.nfl.com
www.nhl.com

Your Assignment:

Visit each league's web site and answer the following questions:

- What do the sites tell you about the sports/business/entertainment connection?
- What strengths is each sport trying to market?
- Which web site is the most effective? Why?

Activities and Discussion Questions

Inning 2

2.1 A Class Act?

Americans have never been comfortable talking about class. Ours is supposed to be a society in which accomplishment matters more than ancestry.

We have always liked to think that there's no limit to where education, hard work, talent, and a little luck can take us. And there are plenty of examples to back up that belief.

But could it also be true that class distinctions are sharper than we might like to admit?

Prints and Photographs Division, Library of Congress

Polo. An advertising poster for the North Shore & Milwaukee Railroad

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Inning 2

Prints and Photographs Division, Library of Congress

Cockfighting, 1700s

Part A

Try This Exercise:

List all the sports you can think of, even the American Gladiators competition. (If you don't feel like starting from scratch, some of the Internet search engines have pretty good lists.)

When you finish making the list, try to classify each sport according to which socio-economic group you think it would appeal to the most:

- working-class spectators or participants
- middle-class spectators or participants
- upper-income spectators or participants

Question:
What are some of the reasons that influenced your classifications?

Part B

Try This Exercise:

Depending on the season, watch at least 30 minutes of a golf match, a tennis match, NASCAR, whatever major team sport is in season, and professional wrestling. Keep a log of the commercials for each telecast.

Questions:
- What differences do you notice in the products and services being advertised?
- What do the differences tell you about class distinctions?

2.2 Things Change

In 1954, social scientist Jacques Barzun claimed that, "Whoever wants to know the heart and mind of America had better learn baseball."

But that was then. What about now? Does baseball still have anything to tell us about the "heart and mind of America"? Are there other sports that now tell us more? Which ones? And what does the rising popularity of those sports tell us about the economic and social changes that have occurred over the past 50 years?

Try This Exercise

Compare the two photos on the next page. One shows the crowd at Boston's Fenway Park, circa 1934. The other shows fans at Fenway during the 1990s. What are the differences between the two? What do the differences say about changes in the U.S. economy?

Fenway Fans, 1930s

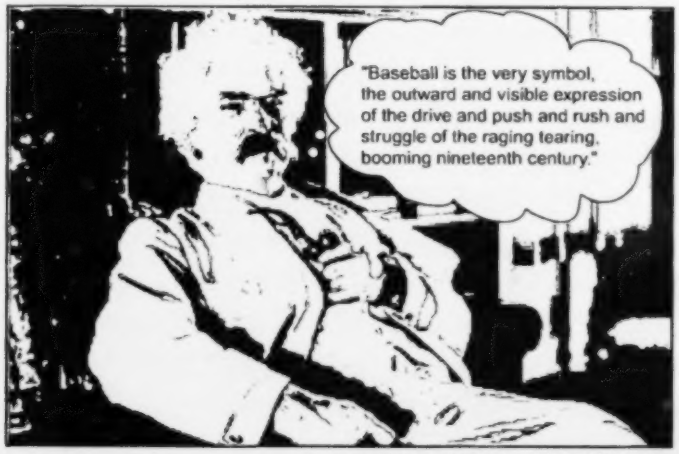
Photograph by Leslie Jones, Courtesy of the Boston Public Library, Print Department

Fenway Fans, 1990s

Courtesy of Boston Red Sox

2.3 Design A Sport for the Times

In 1889, Mark Twain said that baseball was "the very symbol, the outward and visible expression of the drive and push and rush and struggle of the raging, tearing, booming nineteenth century."


"Baseball is the very symbol, the outward and visible expression of the drive and push and rush and struggle of the raging tearing, booming nineteenth century."

Prints and Photographs Division, Library of Congress

Mark Twain

But what about the twenty-first century? If you were to choose or invent a sport that expresses our current economic and social realities, what kind of sport would it be? Why?

2.4 Planes, Trains, and Parking Spaces

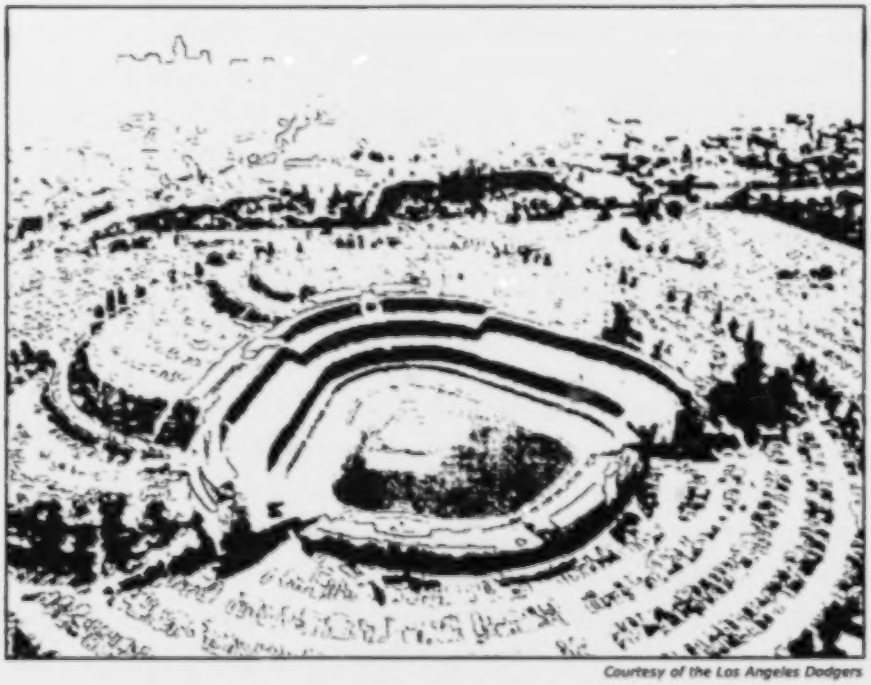
Try This Exercise:

Compare the two photos. One shows Boston's Fenway Park, which opened in 1912. The other shows Los Angeles's Dodger Stadium, which opened in 1962. What does the comparison tell you about how the market for pro sports was affected by transportation improvements and demographic changes. (If you're stumped, just start by describing what you see.)

Question:
What about planes? How did air travel help to expand and change the market for pro sports?

Courtesy of the Boston Public Library, Print Department

Boston's Fenway Park, 1945



Courtesy of the Los Angeles Dodgers

Dodger Stadium, Los Angeles

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2.5 Bringing the Game Home: Sports and the Media

During the late 1800s and early 1900s, trolley cars and subways expanded the market for professional sports by making it possible for more fans to visit the ballpark. Automobiles did the same during the 1950s and 1960s.

But the modern pro sports bonanza could never have happened without the mass media. Newspapers, radio, and television gave teams and advertisers a way to tap the interest – and the pocketbooks – of all those fans who rarely, if ever, had the chance to see a game in person.

Prints and Photographs Division, Library of Congress

Newspaper sports sections gave more fans a way to follow their favorite teams and players.

Sports and the media first teamed-up during the late 1800s when newspapers introduced "sporting pages" as a way to fill more space and sell more advertising. (An increasing literacy rate and a steep drop in the price of newsprint had helped to boost U.S. daily newspaper circulation from 2.6 million in 1870 to 15.1 million in 1900.)

Sports sections proved to be a very effective way to connect with a mass audience. People who were not able to sit in the stands every day could still follow their favorite teams and players by reading the newspaper. And from a business standpoint, the sports section was a great way for advertisers to connect with readers – especially male readers.

When radio came along during the 1920s, the sports market expanded again. Announcers brought the games – and commercial advertisements – into the cars and living rooms of even more fans.

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But the real bonanza began during the 1950s when television showed viewers what the games actually looked like. Once that happened, the connection between sports and armchair fans became stronger than ever. Kids were able to observe and mimic the mannerisms of their favorite players. And before long, the kids and their parents, were opening their wallets even wider to buy the products that their heroes were plugging on the small screen.

Cable television took the media/sports relationship to a new level during the late 1970s and 1980s. ESPN, the all-sports cable outlet, enjoyed spectacular success, and later so did Fox Sports.

In some ways, the cable TV boom had an impact that was similar to the increase in newspaper circulation a hundred years earlier. Newspaper editors had created sports sections because they needed more content to fill their pages, and because they saw the commercial possibilities in sports. A hundred years later, cable TV executives did much the same thing. They

Courtesy of National Baseball Hall of Fame

Photographers on the field.

needed content to fill all those time slots, and they had a hunch that cable would be an ideal way to reach a TV audience that was becoming more segmented. Cable extended the sports market to a younger, less traditional audience with innovations such as extreme sports and beach volleyball.

Sure, some hard core traditional fans think a lot of the new programming borders on "junk sports." But, hey, one fan's "junk sports" is another fan's source of excitement and entertainment.

Try This Exercise:

Look at a recent newspaper and compare the ads in the sports section to the ads in other sections. Is the sports section still mainly a vehicle for advertisers to reach male readers? Explain your answer.

Try This Exercise:

Bring in the weekly television listings from a Sunday newspaper. Go through it and write down all the sports programming you can find. Note the type of sport, the time of day, the channel/network, and whether or not the event is on cable or broadcast television. Then try to analyze how the expanded number of available television channels has affected the content of sports programming and the market for televised sports.

Question:
What about computers? Are they helping to expand the market for pro sports, or are they competing against sports in the entertainment/leisure market? Explain. (See Exercise 1.6 All Net)

Activities and Discussion Questions

Inning 3

3.1 Inputs

Economists sometimes talk about factors of production or inputs – labor, materials (land, natural resources, or raw materials), and capital. In the case of a sports franchise, labor includes players, coaches, trainers, groundskeepers, and umpires or referees – all the people who make the games happen on the field. Materials include the plot of land where the ballpark sits or the water and fertilizer that help to keep the grass looking good. Capital is the actual ballpark structure, the arena building, training equipment, a Zamboni – something as simple as a ball or as complex as an exploding scoreboard – all the implements, tools, and structures required to produce the sports product.

Try This Exercise:

List the inputs needed to produce a baseball season or a football season. Then list the inputs needed to produce a heavyweight boxing title fight or a professional tennis match. Compare the lists when you finish.

Question:
How do the inputs needed to produce a team sport (baseball or football) differ from the inputs needed to produce an individual sport (boxing or tennis)?

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Inning 3

Try This Exercise:

Below is a publicity shot of Babe Ruth stitching a baseball at the old Draper-Maynard Sporting Goods factory in Plymouth, New Hampshire. Take another look at the photo and try to identify:

a) a labor input

b) a materials input

c) a capital input

Courtesy of New Hampshire Historical Society

3.2 What's in a Name?

First there was the National Association of Base Ball Players(1857), then the National Association of Professional Base Ball Players (1871), and finally the National League of Professional Base Ball Clubs (1876).

Questions:

- What do the different names say about the changes in organizing labor, materials, and capital?
- Why might a league run by players have a tougher time succeeding than a league run by investors?
- Who should have greater control over the sports product – the people who own and organize the teams or the people who play the game and attract the fans? Explain your reasoning.

Activities and Discussion Questions

Inning 4

4.1 Ratings and Revenues

The National Hockey League received $60 million in TV revenues during the 1998-99 season. By contrast, the National Football League received approximately $2 billion – give or take a few hundred million.

Question:
Why such a big difference?

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4.2 How Much is That in Today's Dollars?

The Federal Reserve Bank of Minneapolis has a very useful web site called "What's a Dollar Worth?" It covers 1913 to the present, and it's a great tool for calculating and comparing how prices have changed over the years.

Try This Exercise:

Thirty seconds of commercial time during the first Super Bowl in 1967 cost $42,000. The same thirty seconds cost advertisers an average of $2 million during Super Bowl XXXIV in January 2000. Go to the "What's a Dollar Worth?" web site and compare the two amounts:

http://woodrow.mpls.frb.fed.us/economy/calc/cpihome.html

Question:
If you were an advertiser, why would you want to negotiate a lower advertising rate if your commercial is scheduled to appear during the game's fourth quarter?

Prints and Photographs Division, Library of Congress

The First Super Bowl, 1967

4.3 Your Dream Homework Assignment

How big is the licensed goods business? Take a week to find out. Go shopping, watch TV, listen to the radio, read newspapers and magazines and keep a log of every product you come across that is licensed by a professional sports organization – Major League Baseball, Major League Soccer, the NBA, the NFL, the NHL, NASCAR, whatever you see.

Questions:

- What trends do you notice? Are certain products associated with a particular sport? Is licensing more effective for some products than others? Why?

- Is there a price difference between licensed goods and comparable non-licensed goods? For example is the official team jersey or the official team cap more expensive than a comparable jersey or cap without a team logo?

- Why have licensed goods become so popular?

- What about celebrity endorsements? How much do they influence your buying decisions? (Be honest!)

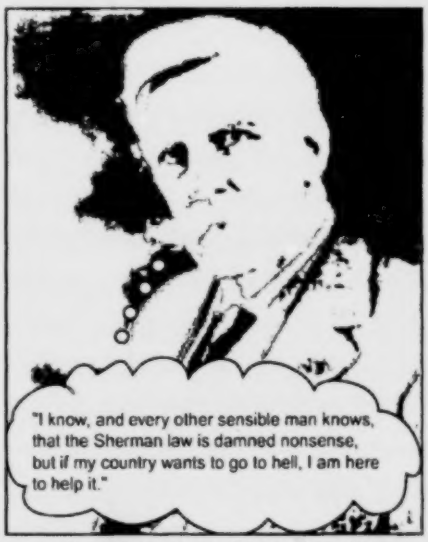
4.4 A Matter of Trust(s)

Justice Oliver Wendell Holmes wrote the 1922 Supreme Court decision that gave baseball an exclusion from the Sherman Antitrust Act and other federal antitrust laws. He once said: "Of course I know, and every other sensible man knows, that the Sherman law is damned nonsense, but if my country wants to go to hell, I am here to help it."

Questions:

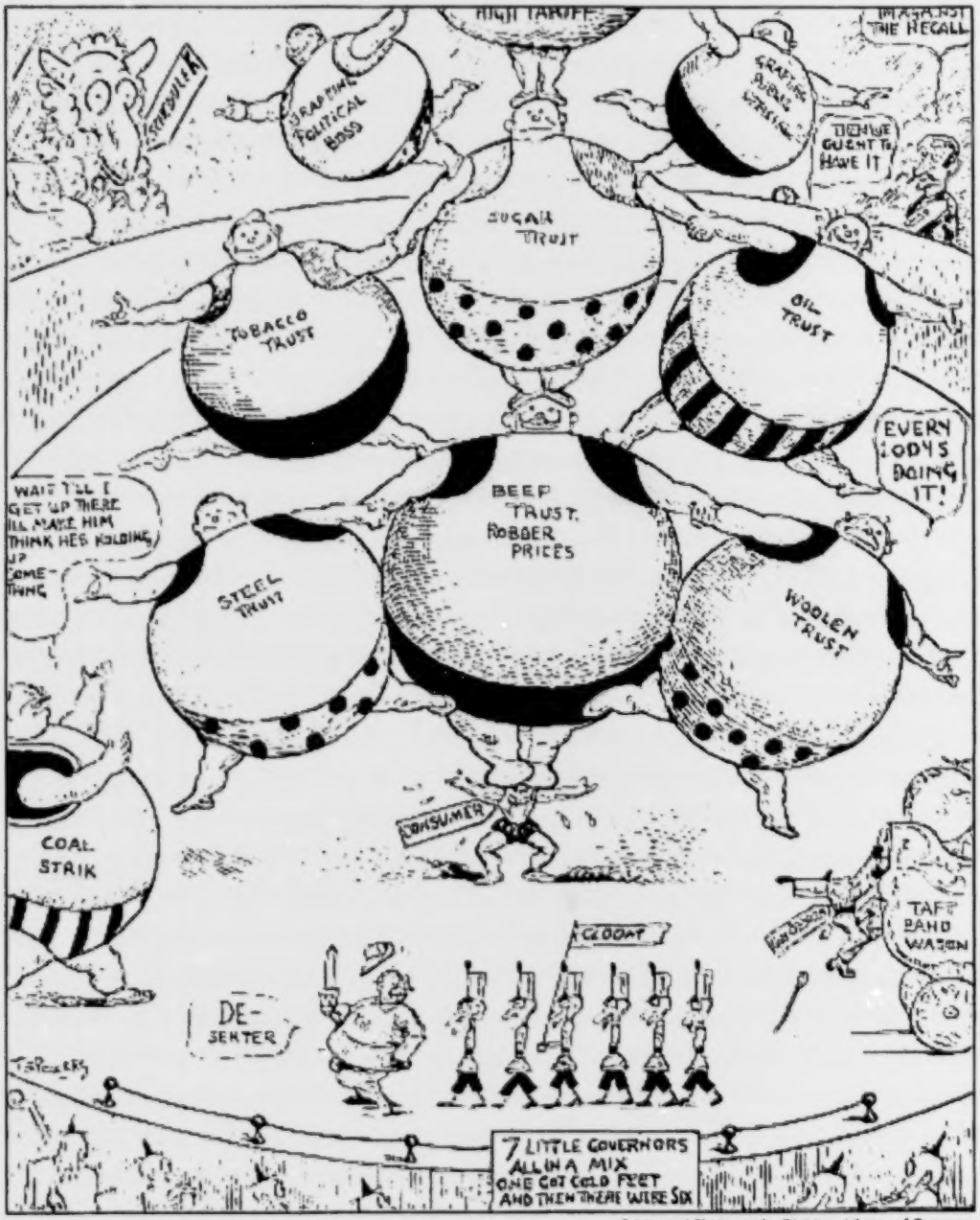
- What do you think Justice Holmes meant?
- Are there times when a monopoly might not hurt the interests of consumers and may, in fact, serve the public interest? Explain.
- Would you classify professional sports leagues as perfect competition, oligopolies, monopolies? What is your reasoning?

Economists Quirk and Fort propose breaking up each pro sports league – the NBA, NFL, NHL, and MLB – into independent leagues that would compete against one another for everything - players, TV contracts, franchise locations, and fans. (Example: The NBA's four divisions – Atlantic, Central, Midwest, and Pacific – would become totally independent leagues.) What do you think? What economic impact would that have on pro sports?


"I know, and every other sensible man knows, that the Sherman law is damned nonsense, but if my country wants to go to hell, I am here to help it."

Prints and Photographs Division, Library of Congress

Justice Oliver Wendell Holmes



Prints and Photographs Division, Library of Congress

"The Monopoly Brothers" balancing on the shoulders of the consumer, 1912

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Activities and Discussion Questions

Inning 5

5.1 Are All Fans Equally Important?

Try This Exercise:

You are a team owner whose top priority is making a profit. Rank the following fans in order of their importance to your team's bottom line. Try the exercise by yourself, and then get together as a class and compare results.

a) a ten-year-old child who wants to watch the World Series on TV
b) a male, 18 to 45 years old, who watches sports on TV
c) a season ticket holder (conventional box seat)
d) a corporate customer that buys six box seat season tickets
e) a corporate customer that buys a luxury suite for the season
f) a family of four that buys tickets to one or two games a season
Talk about the reasons for your rankings.

Courtesy of the Boston Public Library, Print Department

Kids celebrate Opening Day at Boston's Fenway Park, 1956

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5.2 Ticket Prices

When demand is high, producers tend to push up prices. Pro sports teams are no exception.

Try This Exercise:

Look at the figures shown below for total Major League Baseball attendance and average ticket prices and then try to answer the following questions:

- What relationship do you see between attendance and ticket prices?
- If enough fans are willing to pay higher prices, why should teams worry about the rising cost of tickets? After all, isn't it every business owner's dream to have a product that is so much in demand that customers will pay just about any price to buy it?

Major League Baseball Attendance and Average Ticket Prices
Regular Season Games, 1990-1999

Year	Total Attendance	% Change in Attendance	Average Ticket Price	Change in Ticket Price
1990	54,824,000	----	----	----
1991	56,814,000	3.5%	$8.64	----
1992	55,873,000	(-1.6)%	$9.30	7.6%
1993	70,257,000	25.7%	$9.60	3.2%
1994*	50,010,000	(-28.8)%	$10.45	8.9%
1995*	50,469,000	0.9%	$10.55	1.0%
1996	60,100,000	19.0%	$11.19	6.1%
1997	63,196,000	5.1%	$11.98	7.1%
1998	70,601,000	11.7%	$13.59	13.4%
1999			$14.91	9.7%

*strike-shortened season

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Inning 5

Try This Exercise:

Price can vary quite a bit from one market to another. Compare the highest-priced major league baseball markets to those with the lowest ticket prices.

Questions:

- Other than the ticket prices, what are the differences between the high-priced and the low-priced markets?
- How do you think these differences affected ticket prices?

Ticket Prices: Highs and Lows

	1998 Ticket Price	Average 1999 Home Crowd	Average 1999 Capacity	1999 Wins/Losses
Highest Prices				
Boston Red Sox	$24.05	29,300	86.5%	92/70
N. Y. Yankees	$23.33	36,940	64.2%	114/48
Lowest Prices				
Minnesota Twins	$8.46	14,395	25.6%	70/92
Montreal Expos	$9.38	11,295	25.8%	65/97

5.3 Box Seats and Bleachers

Is going to a game really more expensive than it used to be?

No doubt about it, going to a professional sporting event is expensive. Just look at baseball, which has the lowest average ticket price of the four major American spectator sports.

According to the annual Fan Cost Index issued by Team Marketing Report, a family of four would pay $166.84 to attend one New York Yankees home game in 1999. (The Montreal Expos were the least expensive at $87.87.)

The Fan Cost Index includes: four average price tickets, parking for one car, four small sodas, four hot dogs, two small beers, two game programs, and two twill souvenir caps. And that might even underestimate the actual cost because, as everyone knows, kids never stop at just one hot dog and a small soda.

But is going to a game really more expensive than it used to be?

In 1919, a seat in the grandstand at a major league baseball game cost $1.00, and a bleacher seat sold for 25 cents. Those were the days, right? Not exactly.

The average weekly earnings of a U.S. manufacturing worker in 1919 amounted to $22 a week, which means the $1.00 grandstand seat ate up 4.5 percent of the worker's weekly income. The 25-cent bleacher seat claimed 1.1 percent.

Fast-forward to 1999: A U.S. manufacturing worker earned an average of $570 a week, and a good grandstand seat at Yankee Stadium sold for about $26, or 4.5 percent of the worker's weekly income. An $8 seat in the stadium's fabled bleachers ate up a little more than 1.4 percent.

Looked at in these terms, the cost of going to a baseball game has remained fairly stable over the years.

Now just try telling that to the dad or mom who is shelling out $166.84 for an outing at Yankee Stadium.

Inning 5

Try This Exercise:

Going to a game seems to have gotten very expensive. But how does it compare to the cost of other entertainment options?

Take a look at the Arts & Entertainment section of a Sunday newspaper or go online and compare the cost of five different entertainment options. How does the cost of pro sports compare with the cost of these other options?

5.4 In Your Dreams

What if you were to wake up one morning to see the following headline:

Pro Players Take 50 Percent Pay Cut!
Stars Say They Love Fans, Want
to See Ticket Prices Drop

Question:
Even if this were to happen, do you think ticket prices would drop as long as teams were able to fill most of the seats in their ballparks? Explain.

5.5 Choice Seats: Allocating a Scarce Resource

What is the best way to allocate a scarce resource? By price? By lottery? By seniority? By need? What is most efficient? What is fair? Is there a need to balance efficiency and fairness?

Questions of scarcity and allocation always arise during the days leading up to a major sports event. Everyone wants to see the "big game," but the number of seats is limited. So, who gets tickets? How should the tickets be allocated?

These days, season ticket holders get the "right of first refusal" (first choice) on a large share of World Series or playoff tickets. In a sense, those tickets are being allocated by price because season ticket holders are shelling out a considerable amount of money when they buy seats for an entire season.

If you look at it another way, season ticket holders are also buying a lottery ticket. What's the prize? The right to buy post-season playoff tickets before anyone else - if their team makes it to the post-season.

But not all "big game" tickets go to people who hold season tickets. Some are sold to people who are willing to camp out all night and wait in line until the box office opens. You could say that those tickets are being allocated by seniority - first come, first served.

Scalping: "Selling two. Who needs two?"

Even after a game is sold out, some people still manage to get tickets by dealing with a "scalper." A scalper buys tickets in the conventional way, at face value, and then sells them at a higher price. How high? That depends on how badly people want to see a particular game.

Bob Graboyes, a writer and economist at the Federal Reserve Bank of Richmond, points out that scalpers raise some interesting issues:

> "To an economist, a scalper is performing a service. He's offering tickets to people willing to pay the price. How ever much you may dislike scalpers, their customers are happier with the tickets

than they were with the money that they spent on the tickets. I used to live in New York City; in the theater district, scalpers were highly sought-after folks and produced a lot of satisfied customers.

"Interesting thing – the more effective the anti-scalping laws, the more the scalpers charge. Some city out west (Phoenix, I think), took a novel approach. At first they banned scalping and, predictably, the scalpers reaped astronomical prices. Then they changed the law – they legalized scalping but forced scalpers to operate in a central ized location. Just as economic theory would predict, the prices plum meted. Why? Because customers had choices of vendors. Before, they didn't know whether their scalper was the last one in town with tickets. In the centralized market, they can do comparison shopping."

Which raises the "information" issue. Buyers who have more complete information will always have an advantage when it comes to obtaining a better price.

Try This Exercise:

Identify four scarce resources and describe the best method for allocating each.

5.6 Elasticity: It's a Snap

Price elasticity of demand relates to the question of how consumers respond to a change in price. Will they cut back their purchases a lot or just a little when the price of an item rises?

Calculating the price elasticity of demand is not as complicated as it sounds. You just need to know two things:
1) the percentage change in the price, and
2) the percentage change in the quantity that consumers demand.
Then just divide the percentage change in quantity by the percentage change in price.

If the resulting number is greater than 1, demand is said to be elastic. If it is less than one, demand is inelastic. (Economists try to keep things simple by always stating the result as an absolute value – a positive number.)

Here's an example that looks at the overall elasticity of demand for Major League Baseball tickets:

- The average price of a baseball ticket rose from $13.59 in 1998 to $14.91 in 1999. That's a 9.7 percent increase.
- Major League Baseball attendance (quantity) fell slightly from 70.60 million in 1998 to 70.35 million in 1999; a decrease of approximately 0.35 percent.
- -0.35 / 9.70 = -0.036 (convert the negative number to absolute value = 0.036)
- 0.036 is a lot less than 1, so overall demand appears to be very inelastic.

But demand varies quite a bit from one market to another. Just look at a fairly weak market like Montreal, where the average price of an Expos ticket dropped to $9.38 – a 6 percent decrease – and attendance still fell by 15.5 percent.

And at the other extreme is Boston, one of the strongest (and most expensive) baseball markets in either league. The average price of a Red Sox ticket rose 16.6 percent in 1999 (to $24.05), yet attendance still climbed by nearly 5.7 percent.

Activities and Discussion Questions

Inning 6

6.1 The Growing Salary Gap Between Players and Fans

William "Harry" Wright was player/manager for baseball's first professional team, the Cincinnati Red Stockings. According to the calculations of sports economist Andrew Zimbalist, Wright earned seven times the U.S. average income in 1869.

In 1999, Kevin Brown earned $15 million to pitch for the Los Angeles Dodgers – approximately 500 times more than the average U.S. worker. Big difference!

Question:
In your opinion, how has the widening financial gap between players and fans affected pro sports?

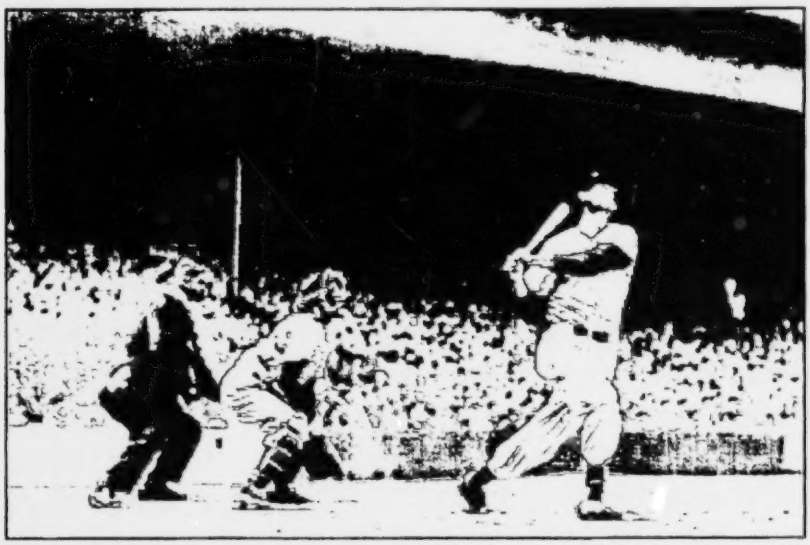
6.2 They're All Good, and Some Are Exceptional

Next time you're tempted to boo a ballplayer who strikes out or pops up in a key situation, think about this:

- Home plate is only 60 feet 6 inches from the pitcher's mound.
- A big league fastball travels at more than 90 miles per hour and reaches the plate in just over four-tenths of a second.
- The batter has only a few thousandths of a second to decide whether or not to swing.
- And pitchers don't always throw fastballs. A good curveball, traveling 80 to 85 miles per hour, can look as if it's coming straight at your head before it drops over the plate for a strike.

Big deal, you say. Athletes still make a lot of money for playing a game. And maybe you have a point.

Question:
Teachers, nurses, and day care workers – people who do things that are truly essential – earn only a fraction of what an average pro athlete makes. Is that fair? Maybe not. But there is an economic explanation. See if you can come up with it.
HINT: Think "revenue" and "marginal revenue product."



Courtesy of the Boston Public Library, Print Department

"The Kid" hits another one. Ted Williams, 1948

6.3 Who's Forcing Team Owners to Pay Big Salaries?

Here's a question for anyone who thinks high salaries are ruining sports:

Who is forcing team owners to pay high salaries?

Try This Exercise:

If you work after school or on weekends, go to your boss and ask for an $11 million salary. What do you think will happen?

On second thought, if you want to keep your job, maybe you shouldn't try this exercise. Just use your imagination to predict how your boss would react.

The point is that no one can force an employer to part with more money than he or she is willing to pay – or to part with more money than he or she thinks an employee is worth.

6.4 "We Finished Last with You . . ."

Owners measure a player's market value in terms of how much the player will add to a team. They focus on how much the player produces in terms of team wins and team revenue.

But what if a star plays for a losing team that isn't drawing many fans? How valuable is he then? Will the team be willing to pay a lot to keep him?

Outfielder Ralph Kiner hit 54 home runs for the last-place Pittsburgh Pirates in 1949. It was quite an individual accomplishment. But when he asked Pirates general manager Branch Rickey for a raise, Rickey replied, "We finished last with you; we could have finished last without you."

Courtesy of National Baseball Hall of Fame

Raph Kiner

What was Ralph Kiner worth? Check the following two web sites and decide for yourself:

http://www.pirateball.com/gdKiner.html
http://cgi.cnnsi.com/baseball/mlb/historical_profiles/index.NL.Pittsburgh.Pirates.1949.html
(click on Ralph Kiner OF)

Try This Exercise:

Read Kiner's brief biography and look at his statistics. Would he have been worth the extra money? You make the call. Explain your reasoning.

How does Ralph Kiner's experience relate to the concept MR = MC?

Don't Miss This One:
Professor Phillip J. VanFossen has developed an excellent exercise for measuring a player's marginal revenue product. Be sure to check it out at: www.econedlink.org/minute/archive/minute_000512.html

6.5 "Winner-Take-All" Markets: Nice Work If You Can Get It

Lots of talented high school and college athletes share a dream: Make it to "The Show," sign a fat contract, buy a big house for mom and a new car for dad.

Nice dream, but for most kids it never comes true. Just look at how tough it is to make it to the major leagues:

- In 1999, there were 30 Major League Baseball teams; each team carried a 25-player roster. (30 teams) X (25 players per team) = 750 players

- In 1999, there were approximately 273 million people in the United States. This means that, in round numbers, one out of every 363,000 Americans had the skill and the luck to become a Major League Baseball player.

- And approximately 20 percent of the players on 1999 major league rosters were foreign born. So if you take the global view, the figures are even more dramatic: Roughly one out of every 8 million of the earth's 6 billion inhabitants has the skill and the luck to become a big league ballplayer.

Of course, the person who "makes it" in sports or entertainment wins big. But what about all those who try and fail?

In their 1995 book, *The Winner-Take-All Society*, Robert H. Frank and Philip J. Cook point out the downside of going for a big payday in highly competitive markets that have very little room at the top:

> "[A]lthough the competition for top slots in winner-take-all markets does indeed attract our most talented and productive workers, it also generates two forms of waste: first, by attracting too many contestants, and second, by giving rise to unproductive patterns of consumption and investment as contestants vie with one another for top positions.

> ". . . Becoming a contestant in a winner-take-all market entails a decision to pit one's own skills against a largely unknown field of adversaries . . . . When people overestimate their chances of winning, the number who forsake productive occupations in traditional markets to compete in winner-take-all markets will be larger than could be justified on traditional cost-benefit grounds."

Something to think about . . .

Here's a quote from former NBA star Charles Barkley:

> "I never discourage any young people from pursuing their dreams, even if it's to become a professional athlete. But it can't be their only dream. Kids have to have many dreams, enough to ensure that at least one of them will come true."

Questions:

- What do you think Sir Charles meant?
- When a talented young person dreams of entering a winner-take-all market (professional sports, the Olympics, Hollywood, pop music), what are the pros and cons of encouraging that person to pursue a "safer" career path?
- What do Frank and Cook mean when they say that winner-take-all markets give rise to "unproductive patterns of consumption and investment as contestants vie with one another for top positions"?

Photograph by Lewis Hine. Courtesy George Eastman House

Scooter races, New York, 1910

6.6 Maybe If You Work a Bit More Overtime. . .

No two ways about it, professional athletes make a lot of money. But they're not alone. Top entertainers and top executives earn just as much, if not more.

Each year, *Forbes* magazine publishes its "Top 40" lists of the highest-earning athletes, entertainers, and executives. Visit the site www.forbes.com and compare the earnings of the five top entertainers, executives, and athletes.

Surprise! Athletes earn less than top entertainers and executives.

Question:
Why do people seem to get so much more agitated over athletes' salaries than they do over the earnings of rock musicians, movie stars, and top executives?

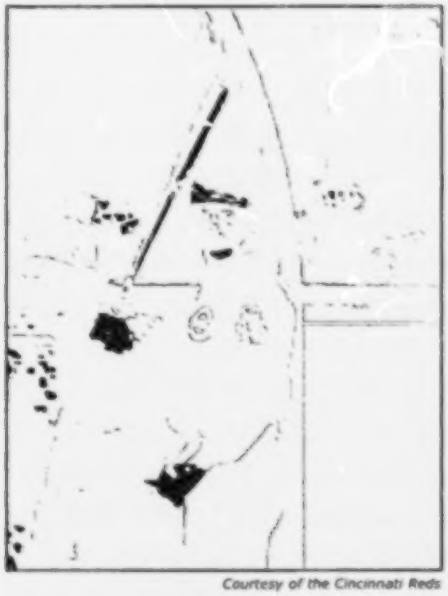
6.7 How Much is Enough?

Sometimes a rare and wonderful thing happens: A professional athlete will decide to stay in the same town, even though he could make more money with another team. Maybe he stays because he feels a sense of loyalty to a city and its fans, or maybe he just doesn't want to move his family.

Or maybe a superstar decides to sign with a small market team for less money. That's what Ken Griffey, Jr. did after the 1999 season. The star outfielder turned down a $148 million eight-year deal with Seattle and signed with Cincinnati for $116 million over nine years. (That comes down to $18.5 million in Seattle versus just under $13 million in Cincinnati.) Why did he do it? Because Cincinnati was his hometown, his father was a Cincinnati coach, and he wanted to be closer to his winter home in Florida.

Question:
How much money is enough? (Seriously. Don't just give the stock answer: "You can never have too much money.") What do you think is an adequate income? How did you arrive at your answer?

Question:
What motivates some people to work harder or choose a certain job? Is it always money?



Courtesy of the Cincinnati Reds

Ken Griffey, Jr.

6.8 How a Broadway Show Sent Babe Ruth to the Big Apple

Even the most casual Boston Red Sox fan knows all about opportunity cost, trade-offs, and what author Susan Lee calls "the measure of what could have been."

The Red Sox and their long-suffering fans have not tasted World Series champagne since 1918. *Boston Globe* sports columnist Dan Shaughnessy traces their misfortune to "The Curse of the Bambino."

In 1920, Red Sox owner Harry Frazee sold Babe Ruth – a.k.a. "The Bambino" – to the arch rival New York Yankees. Why? Because he needed the money.

Frazee was an avid sportsman, but the Red Sox were not his number one priority. He was, first and foremost, a theatrical impresario, and in 1919 he desperately needed cash to finance his Broadway productions. When Yankees owner Colonel Jake Rupert offered to "buy" the Babe for more than $100,000 in cash and a $300,000 loan for a mortgage on Fenway Park, Frazee took the deal.

The rest is history. Harry Frazee enjoyed continued theatrical success, most notably with *No, No Nanette* (hit song: "Tea for Two"). Babe Ruth went to New York, became a sports legend, and made the Yankees a baseball dynasty.

And to this day, Yankees fans taunt Sox fans by chanting "1918."

Question:
How does the concept of opportunity cost relate to Harry Frazee and Babe Ruth?

George Bush Presidential Library

Babe Ruth presents the manuscript of his autobiography to George Bush, captain of the Yale baseball team, 1948.

6.9 Dirty Laundry: The Black Sox Scandal

Some say "money is the root of all evil." Others say it's the lack of money. The 1919 World Series made a case for both points of view.

The Chicago White Sox were everyone's pick to win the 1919 World Series. Pitching, fielding, hitting, coaching – they had it all.

But they were an unhappy bunch, mainly because White Sox owner Charles Comiskey was so tight with a dollar. At one point, he even tried to charge the players for laundering their uniforms. The players expressed their displeasure by wearing the same unwashed uniforms day after day. Soon their flannels looked so dingy that fans and sportswriters dubbed them the "Black Sox."

Courtesy of National Baseball Hall of Fame

Charles Comiskey

Comiskey eventually waived the laundry fee. But after the 1919 season ended, the Black Sox nickname resurfaced in a scandal that involved dirty money rather than dirty laundry.

The problem was money. White Sox stars like Shoeless Joe Jackson and Eddie Cicotte were earning only a fraction of their "fair market value." Less gifted players on other teams were making far more money – a fact that made White Sox players increasingly unhappy but didn't trouble Comiskey in the least.

If a player was dissatisfied with a contract offer, Comiskey's standard response was "Take it or leave it." His team was winning ballgames, his franchise was making money, and regardless of how unhappy his players were, he knew that the reserve clause in their contracts prevented them from jumping to another team.

But a contract clause could not stop bitter players from selling out to gam-

blers. And that's exactly what eight of the White Sox were alleged to have done during the 1919 World Series.

The episode, which would forever be remembered as the "Black Sox" scandal, shocked even the most jaded fans – including a Chicago alderman who had lost a considerable sum betting on the White Sox. The idea that a team would actually "throw" the World Series was almost too terrible to comprehend.

Team owners were so desperate to restore baseball's tarnished image that they hired federal judge Kenesaw Mountain Landis to serve as permanent Commissioner of Baseball. They gave him absolute power over every aspect of the game and agreed to pay him $50,000 a year. (Note: The White Sox star pitcher, Eddie Cicotte, had earned less than $6,000 for winning 29 games in 1919.)

The eight players indicted in the Black Sox scandal went to trial in 1921. None of them were convicted. But after the trial, Landis exercised his absolute power and banned all eight from professional baseball for life.

"Regardless of the verdict of juries," declared Landis, "no player who throws a ball game, no player that undertakes or promises to throw a ball game, no player that sits in conference with a bunch of crooked players and gamblers where the ways and means of throwing a game are discussed and does not promptly tell his club about it, will ever play professional baseball!"

Courtesy of National Baseball Hall of Fame

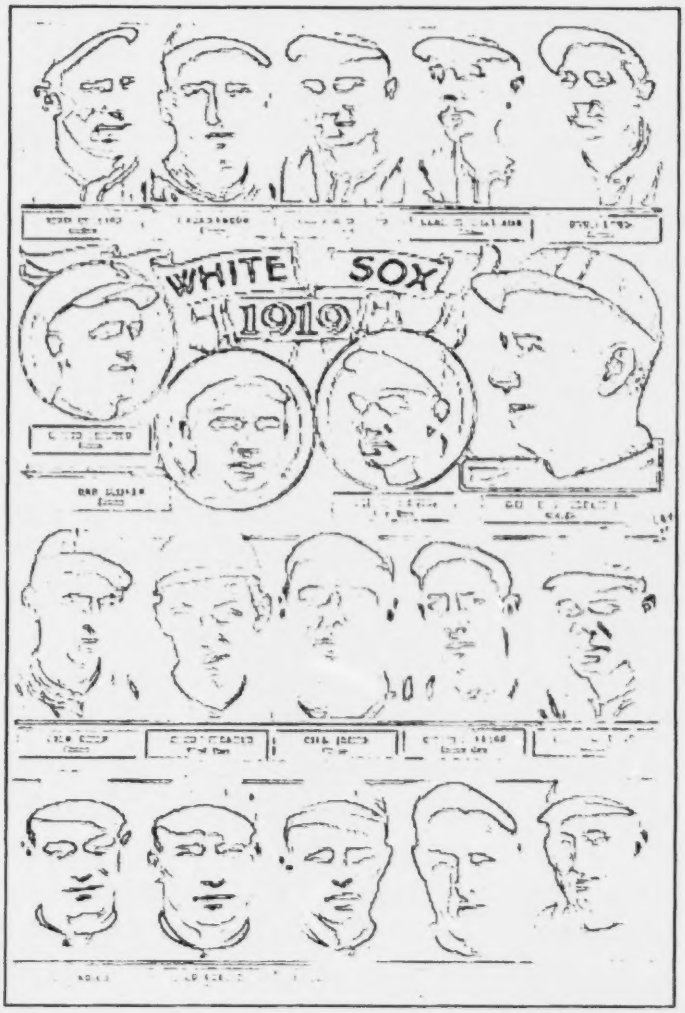
Judge Kenesaw Mountain Landis

And none of the eight "Black Sox" ever played on a major league diamond again.

Inning 6

Question:
When's the last time you heard of a professional athlete being implicated in a gambling scandal that involved point-shaving or deliberately losing a game? It almost never happens anymore. Modern sports gambling scandals are more likely to occur at the college level. Why?

Question:
Who does a league commissioner work for – owners or players?



Courtesy of National Baseball Hall of Fame

Chicago White Sox, 1919.

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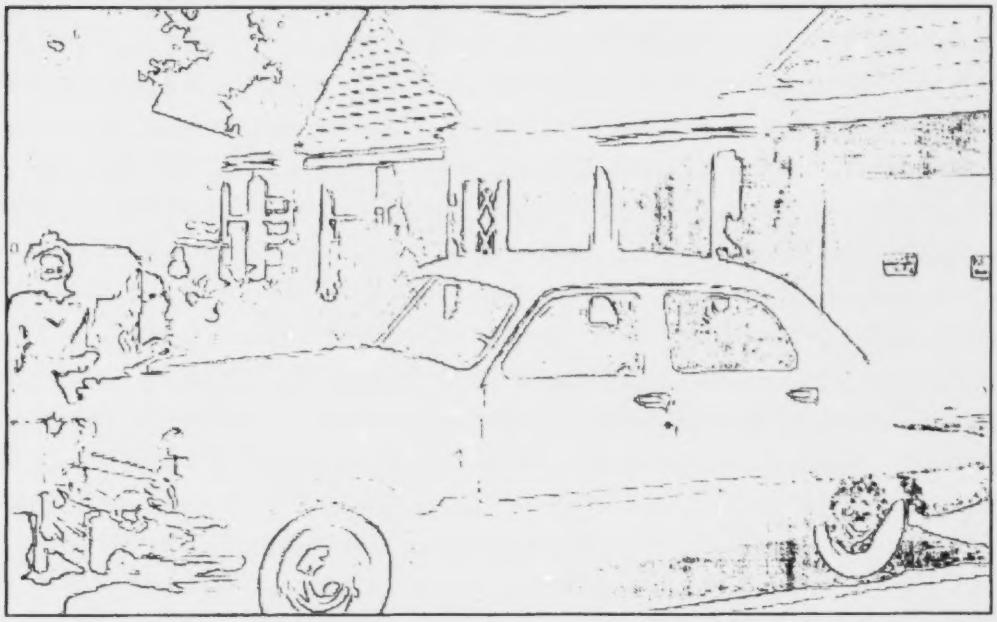
6.10 Curt Flood and the American Dream

Shortly after Curt Flood died, columnist Joan Ryan wrote a tribute to him that celebrated who he was and what he accomplished. Here are excerpts from the article.

(The entire article is available on the *San Francisco Chronicle's* web site: http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/1997/01/22/SP23037.DTL It's worth the effort.)

> *"You know what? I believed in the great American dream. I believed if you were right that nine smart men on the Supreme Court would say that. I believed that if you were right, people would understand and be compassionate."*



Courtesy of National Archives, Still Picures Branch

The American Dream, circa 1950.

They weren't. He was so reviled in the U.S. after his suit that he spent most of the next five years in Europe. "If you do what I did to baseball, if you destroyed the underpinnings of this great American sport, you are a hated, ugly, detestable person."

I said some people still blamed him for ruining baseball. The game was simpler before free agency. Tickets were cheaper. Players stayed with the same team for a lifetime.

Flood laughed. "But, you know, they said the same thing when people worked on plantations. Life was easier, and cotton skirts were a lot cheaper."

Questions:

- What did Curt Flood mean when he noted that "they used to say the same thing when people worked on plantations. Life was easier, and cotton skirts were a lot cheaper"?
- Now that ballplayers are free to move from one team to another, how have consumers (fans) been affected? What has happened to the quality of the product/service offered by Major League Baseball? Explain.
- Curt Flood mentioned the "American Dream." The phrase has been around for a while. To some people it means a house, a car, and a two-week vacation. To others, it means enjoying greater prosperity than the generation that came before them. But in fact, it can mean whatever you want it to mean. So, here's a question: What is the "American Dream"?

Courtesy of National Baseball Hall of Fame

Curt Flood

Activities and Discussion Questions

Inning 7

7.1 How Important Is Competitive Balance?

Lop-sided contests aren't much fun. Just think about all those Super Bowl blowouts in which the commercials were the highlight of the second half. Or what about the Dream Team? Marketers and eight-year-olds loved the idea of NBA superstars taking on the world, but after the hype faded, fans saw the games for what they were – low drama and poor sport.

Of course, there are exceptions. Dominant, powerhouse teams like Babe Ruth's New York Yankees and Michael Jordan's Chicago Bulls are the stuff of legend. Watching an extraordinary team can be a lot more fun than sitting through a forgettable game between evenly matched opponents.

Question:
When you get right down to it, how important is competitive balance in pro sports? Does it really affect the overall economic health of a pro sports league if some teams always win and others always lose? Explain your answer.

Question:
If you think competitive balance is a problem, what is your solution?

Question:
Cable television and satellite dishes make it possible for you to see a winning team whenever you want – as long as you don't mind that the team is from another city. Is the hometown connection as important as it used to be? Why or why not?

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7.2 Let the Buyer Beware?

New York Yankees owner George Steinbrenner is always good for a quote. At the start of the 1999 baseball season, he told *USA Today* that he knew what he was buying when he bought the Yankees, and other owners should have known what they were buying when they bought their teams.

Question:
What do you think he meant?

Courtesy of National Baseball Hall of Fame

George Steinbrenner

7.3 What about Salary Caps for Everyone?

Question:
If there is no salary cap for top doctors, lawyers, corporate executives, rock musicians, TV stars, or computer wizards, why should there be one for top athletes? Why do people seem to get so much more agitated over high salaries for athletes?

7.4 Collusion Course: What's an Owner to Do?

In 1985, Major League Baseball team owners informally agreed not to sign free agent players whose clubs were interested in keeping them. The owners' move was successful in slowing the growth of salaries, but there was a problem.

An individual owner has every right not to pay high salaries. That's an individual business decision.

But when owners acted as a group to restrict the labor market, they violated their labor agreement with the players union. It's called collusion.

After realizing what the owners had done, the Major League Baseball Players Association filed three separate labor grievances. Arbitrators ruled against the owners, who ended up settling all three cases for a total of $280 million. The Players Association distributed the money to players who had suffered financial harm as a result of the owners' collusion.

Your Call:
If collusion is not an option, what can team owners do to reduce labor costs?

7.5 A Modest Proposal: Jonathan Swift Might Have Liked This One

Competitive balance? Let's take this issue into the wider world.

Most Americans would probably agree on two things:

1. Providing a quality education for every child is a desirable goal.

2. The opportunity for a child to get a quality education is probably greater in a wealthy community than in a poor community.

So, why not ask wealthy communities to share some of their local tax revenues with poor communities – a sort of revenue sharing to promote competitive balance? Or what about a "luxury tax" on education budgets that exceed a certain amount? Money from the tax could go to communities that don't have as much to spend on education.

Question:
How do you think parents and students in various communities would react to these proposals?

7.6 If They Move, So What?

Owners of small market teams often say that dwindling attendance and financial pressures are making it hard for them to stay in business. Some threaten to move their teams unless:

1) the local government helps to finance a new stadium, and/or
2) the local fans - especially local businesses – buy more season tickets.

Question:
Who cares? If a business can't make money, it goes out of business. Isn't that one of the bedrock beliefs of a free enterprise system? Are sports franchises different from other businesses in that regard? Explain.

Question:
Media giants like Fox and Disney are buying teams. How might that affect the revenue gap, the payroll gap, and competitive balance?
Before you answer: Go online and check the standings for the 1999 baseball season. Where did the Disney-owned Angels and the Fox-owned Dodgers finish? While you're at it, check the NHL standings. How did the Disney-owned Mighty Ducks finish in 1997-98 and 1998-99?

Activities and Discussion Questions

Inning 8

8.1 From Less Than $10 a Month in Cuba to More Than $1 Million a Year in New York

Pitcher Orlando Hernandez earned less than $10 a month when he worked as a physical therapist in a Cuban hospital. Then in 1998, after fleeing the island in an open boat, he signed a four-year, $6.6 million contract with the New York Yankees. Same guy. Same talent.

Question:
Why was El Duque's income so much higher in the U.S. than it was in Cuba?

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8.2 Made in . . .

Try This Exercise:

Visit a local sporting goods store and make a list of 18 to 24 items; write down the price and the country of origin for each item. (You might want to talk with the store manager ahead of time so that he or she won't think you are up to anything sinister.)

Questions:

- What generalizations can you make about the imported items and the American-made items?
- In general, are there suitable imported substitutes for the American-made items?
- In cases where the American-made items cost more, why would a U.S. consumer pay the higher price?

8.3 Global Brand Names

People sometimes refer to internationally recognized products and companies as "global brand names." You know the companies. They sell soft drinks, fast food, computers, and sneakers.

Certain U.S. sports teams are global brand names, too.

Try This Exercise:

List five U.S. sports teams that are global brand names and five that are not. Explain your choices. What do the teams on each list have in common?

Activities and Discussion Questions

Inning 9

9.1 Major and Minor Differences

The minor leagues were once known as "the bush leagues" because most of the teams were located in small cities and farm towns – in "the bushes." Big league ballclubs were the teams of big city America – "major league cities."

But here's something to think about. Maybe the major league/minor league distinction is economic as well as geographic.

Try This Exercise:

Go to the web site for the Major League Baseball team of your choice, and then go to the web site for the Northern League's St. Paul Saints, http://spsaints.com, and compare the two. Now go to the web site for minor league baseball, http://www.minorleaguebaseball.com.

Questions:

- What generalizations can you make about the cities and towns where many of the minor league teams are located?
- How does the minor league marketing approach differ from the major league marketing approach?
- Are they competing for the same customers? Describe the "fan base" for each.
- Could it be that major league franchises are now the teams of affluent, upper middle class, professional America, while minor league clubs have become the teams of middle class and working class America? What do you think?

9.2 Does Anyone Still Have a Favorite Player?

The emotional distance between players and fans seems wider now than it once was. Gone is the happy illusion that the lives of professional athletes bear even a faint resemblance to the lives of those who pay to watch them play.

Questions:
What do you think? Is there really a greater emotional distance between fans and players than there used to be? Why or why not? What does economics have to do with it?

Photograph by Leslie Jones , Courtesy of the Boston Public Library, Print Department

Babe Ruth and young fans, 1930s

9.3 Is It about Money or Respect?

Superstars will sometimes admit that they make more money than they can spend. Yet during contract negotiations, they hold often hold out for even more.

"It's not about money," they say. "It's about respect."

Question:
What do you think? Is it about money or about respect?

Question:
How might a team be affected if a superstar signs a long-term contract and then other players come along in a few years and sign contracts that are almost as big, or even bigger?

Inning 9

Post-Game Interview

Time to revisit the questions we examined in our Warm-up Activity/Pre-Game Interview:

- What do you think about the salaries professional athletes earn, and why do you think professional athletes earn as much as they do?
- What do you think about the price of tickets to professional sporting events?
- How has "big money" affected professional team sports?
- What is the most urgent economic issue facing professional team sports?

Respond to the questions again, and then go back and take another look at your original responses. Any changes in how you feel or what you think?

Voluntary National Content Standards

Peanuts & Crackerjacks supports 14 of the 20 Voluntary National Content Standards. The standards are listed below, and the table that follows shows the Standards covered by each Inning.

1. Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.

2. Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something; few choices are all-or-nothing decisions.

3. Different methods can be used to allocate goods and services. People, acting individually, or collectively through government, must choose which methods to use to allocate different kinds of goods and services.

4. People respond predictably to positive and negative incentives.

5. Voluntary exchange occurs only when all parties expect to gain.

6. When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.

7. Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

8. Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

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9. Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.

10. Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and well-enforced property rights, is essential to a market economy.

11. Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.

12. Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.

13. Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

14. Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

15. Investment in factories, machinery, new technology, and the health, education, and training of people can raise future standards of living.

16. There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive.

17. Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

18. A nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy.

19. Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power. By creating uncertainty about future prices, inflation can reduce the rate of growth of national living standards.

20. Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

A complete text of all 20 content standards is available on the NCEE web site, www.nationalcouncil.org, and the Foundation for Teaching Economics web site, www.fte.org/standard.

Standard	Inning 1	2	3	4	5	6	7	8	9
1	⚾		⚾			⚾			
2	⚾		⚾	⚾		⚾			
3		⚾				⚾	⚾	⚾	
4			⚾			⚾	⚾		
5						⚾		⚾	
6		⚾						⚾	
7		⚾			⚾	⚾			
8					⚾	⚾	⚾	⚾	⚾
9			⚾	⚾		⚾	⚾	⚾	⚾
10			⚾			⚾			
11									
12									
13						⚾			
14	⚾								⚾
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Inning 1: The Pro Sports Product

You've heard it a thousand times, maybe you've even said it yourself: "Sports has become a business."

Well, as a wise person once said: "Snap out of it!"

Of course, pro sports is a business. Leagues and teams are selling a product that blends athletics, business, and entertainment.

A. The "Big Four"

There's plenty of fan crossover between sports, but each of the "Big Four" —baseball, basketball, football, hockey—has its own unique appeal.

Baseball

Baseball is not for fans who have a short attention span nor is it a game for frontrunners. The season is long—162 games, plus post season play—and even the greatest players fail more often than they succeed. Maybe that's why true baseball fans seem to have a sense of perspective that sets them apart from other sports fans. "The sanguine baseball fan," writes *Washington Post* columnist Tom Boswell, "knows, of course, that his game, more than most, is not about the final score. It's about the stories along the way."

"I can sit in a ballpark after a game and love looking at the field. Everybody's gone and the ballpark is empty, and I'll sit there. I sit there and think, 'Is this as close to heaven as I'm going to get?' Or, 'If I get to heaven, will there be baseball?'"
Kim Braatz-Voisard, 1997 player, Silver Bullets women's professional baseball team

Out at home!, Fenway Park 1940.
Photo by Leslie Jones, courtesy of The Boston Public Library, Print Department

There are no cheerleaders or marching bands at baseball games; no time clock either. In theory, a game could last forever.

And for some people, that's the problem. Non-fans complain that baseball's pace is out of sync with modern life. They'll tell you that football and basketball are better suited to TV or that there's not enough action—that only the middle-aged and the elderly still care about baseball. And all those things are at least partially true.

Modern economic realities have not always been kind to a leisurely paced game that requires an open-ended time commitment. Busy parents say they don't have the time to just sit and watch a game. They want to pack as much entertainment as they can into their non-working hours. They want the full entertainment package, not just a game.

The fact that baseball is out of sync with the rythms of modern life, may prove to be one of the game's saving graces.

And then there's the fact that baseball is a subtle game in an unsubtle age. "Its beauties," writes political columnist and baseball fan George Will, "are visible to the trained eye, which is the result of a long apprenticeship in appreciation." But with parents spending more hours on the job or shuttling kids from one activity to another, and with grandparents, uncles, and aunts scattered across the country, there is rarely anyone around to conduct the apprenticeship—to explain why infielders "shift a few steps when the count changes."

So is it time to write a requiem for baseball? Not just yet.

The fact that baseball is out of sync with the rhythms of modern life may prove to be one of the game's saving graces. If it can steer clear of labor squabbles and market its strengths more effectively—two very big "ifs" —baseball may yet win back the hearts (and the entertainment dollars) of fans seeking a haven in a hectic world.

Football

Football is different. Forget about "the stories along the way." Winning is the *only* thing. Football is war. The games are a tribal experience, a bonding ritual, a gathering of the clans. (What else would you expect from a game that began as an expression of clan rivalries in the British Isles?)

"Some of us will do our jobs well and some will not, but we will be judged by only one thing—the result."
Vince Lombardi, late and legendary coach, Green Bay Packers

Each contest means more in football than it does in other sports because the NFL's regular season schedule is only 16 games long. (Baseball has 162 regular season games; basketball and hockey each have 82.)

One NFL game equals 6.25 percent of the season, whereas 6.25 percent of the baseball season equals ten games. A three-game losing streak in the NFL is comparable to a Major League Baseball team dropping 30 games in a row. No wonder football players, coaches, and fans take losses so hard. There's more at stake.

Football is a tribal experience, a bonding ritual. (Magazine ad, 1913).
Photo courtesy of Prints and Photographs Division, Library of Congress.

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The fact that NFL teams play only once a week also makes each game a big social event. Football games are a great excuse to party. Every Sunday, from September through January, ticketholders get together for tailgate parties in stadium parking lots, while the fans at home lay in a supply of snack food and grow roots in front of their TV sets.

Football owes much of its success to the fact that it is perfectly suited to television. There is lots of action, yet the game's "set plays" give cameras and viewers something to focus on. And, of course, fans love the bone-crunching hits featured in highlight films and instant replays. But when all is said and done, maybe football is so popular because it is the ideal game for casual fans. Even people who don't know a first down from a touchdown can still have fun cheering their lungs out and feasting on barbecued ribs basted with a friend's secret sauce.

Basketball

James Naismith never appeared in a sneaker commercial. He never heard of a slam dunk; probably never even saw a jump shot. So why is he in the basketball hall of fame? Because all he ever did was invent the game.

The 30-year-old physical education instructor had no idea what he was starting when he hung two peach baskets from the balcony walls of a YMCA gym in Springfield, Massachusetts. He just wanted to relieve the boredom of his snowbound students during the winter of 1891.

Naismith's creation has seen a lot of changes since the day when two nine-player teams— dressed in long sleeve wool shirts and full-length pants took to the floor for the world's first game of "basket ball." The game that started out in gym class has transformed itself into a colossal moneymaker that rivals the popularity of baseball and football.

But the transformation took a while. Fans and sportswriters in 1949 greeted the National Basketball Association's first season with a yawn. Even the league's founders didn't expect much. Many of them were arena owners and sports promoters who were happy just to fill a respectable number of seats when there was no boxing match, ice show, circus, or rodeo in town.

Basketball has seen a lot of changes since Dr. James Naismith invented the game in 1891.
Photo courtesy of the Naismith Memorial Basketball Hall of Fame Library.

Finding a ticket was rarely a problem. The games were low-key, low-scoring events. The players were a collection of no-name gym rats and college kids. Most of them were white, all of them shot with two hands and kept both feet on the ground.

Fast forward to 1992 . . .

Forget about stale-smelling gyms and sparse crowds. Professional basketball is now the very essence of the hip, glitzy, affluent side of urban American life. NBA games feature high-flying action, high-priced tickets, and multiple celebrity sightings.

League officials have done a masterful job of marketing their product. They have used star power, slam dunks, the Dream Team, and sneaker chic to capture the interest of fans from Alaska to Zimbabwe. In short, the NBA has given fans what they seem to want: top quality entertainment. The league is a thriving commercial enterprise with an enthusiastic worldwide following. And everyone is sure the good times will last forever.

Fast forward to 1998 . . .

More than half the 1998-99 NBA season was lost to a nasty labor dispute between owners and players. And hardly anyone seemed to care!

What went wrong?

Boston Globe columnist David Warsh summed up the problem perfectly: Twenty-nine owners and 400 players couldn't find a way to share $2 billion a season. (In case you've lost sight of just how much money that is, $2 billion split equally among 429 people equals almost $4.7 million per person, *per season*!)

Did NBA executives, owners, and players fall into the trap of believing their own press releases? Is professional basketball all style and no substance, all sizzle and no steak? We might have to wait a few seasons to find out.

Hockey

Hockey always seems to be skating on thin ice. Think back to 1980 when the U.S. Olympic Hockey Team defeated the heavily favored Soviets and brought home the gold. The entire country celebrated, and

hockey appeared to be headed into an era of renewed popularity and prosperity.

But the cheering faded, and the "Miracle on Ice" became just another sweet memory. Not long afterwards, basketball began the surge that transformed it into the dominant winter sport.

Hockey still maintains a core of dedicated fans.

During the mid-1990s, hockey was again poised to make a comeback. A series of Disney movies—*Mighty Ducks* and its sequels—boosted the sport's popularity with young fans, and colorful hockey jerseys started to catch on with the fashion conscious. But a long, bitter NHL labor dispute dealt hockey another setback.

Then in 1998, the U.S. Women's Olympic Hockey Team won a gold medal and captured fans' hearts with its skillful performance and classy behavior. Had to be good for hockey, right? Well, yes, but a short while later the U.S. Men's Team failed to win even a bronze medal, and some of the players took out their frustrations on the Olympic Village furniture. The headlines were not flattering.

What could be worse for a sport than the one-two combo of tough breaks and bad press? Just one thing, but it's a big one: Hockey doesn't come across very well on TV.

The qualities that make the game so enjoyable to watch at rinkside—the speed, the color, the gritty courage of its players—don't translate to television. The puck is small, the action is fast, and the TV people haven't yet come up with the production techniques to capture the essence of the game.

Yet despite the setbacks and disadvantages, hockey still maintains a core of dedicated fans. To find out who they are, make a pilgrimage to the Hockey Hall of Fame in Toronto and walk over to the interactive exhibit where visitors stand in goal and test their skill. Watch the faces of the Canadian kids as they fend off laser simulated shots, and you'll see how much the game means to them.

No less enthusiastic are their U.S. counterparts in New England and the Upper Midwest, where youth hockey hopefuls (and their parents) make their way to ice rinks for practice sessions that often begin at five in the morning. Even in the U.S. Sun Belt, the NHL is getting a boost from the growing popularity of street hockey. In fact the game is

catching on so well in sunny climes, there is concern that the Canadian national game might be losing touch with its Canadian roots.

What's the outlook for hockey? The answer depends on how well the sport can play to its strengths. Savvy marketing and innovative TV production will help. But the real question seems to be whether the game can make the most of new opportunities such as the heightened popularity of women's hockey and the developing synergy between ice hockey and street hockey.

B. Utility: Why Do We Spend So Much Time and Money on Sports?

We spend a lot of time and money watching games. We pay premium prices for team jerseys and caps. Some of us camp out for the chance to fork over a fistful of cash for playoff tickets; or we spend an entire Sunday munching snack food and watching the NFL on TV. Why do we do it?

Economists approach the question through the concept of **utility**: We choose to spend our money on a product or service because we get a certain amount of use, pleasure, or satisfaction from consuming it.

Utility can be very practical. For example, we might decide to buy a generic baseball cap to corral our wild hair or keep the sun out of our eyes.

But then there are purchases that deliver a greater sense of psychic satisfaction. Sometimes we choose to pay twice as much for a different cap simply because it carries the logo of our favorite team.

The motivation for each purchase is different, but each involves personal choice, and we derive a certain amount of utility—use, pleasure, or fulfillment—from it.

C. At the Margin

Think you know all about margins? Don't be so sure.

The old margins on your fourth-grade book reports were straight lines that never moved. But in the language of economics a "margin" is an outer limit that can expand and contract. It's more like a waistline than a straight line.

Economists often focus on what happens "at the margin" —at the outer limit. **Marginal utility** refers to the amount of satisfaction or benefit we gain from consuming one additional unit of something—eating one more hot dog, watching one more ballgame, or adding one more outfielder to the team's payroll.

The second hot dog you eat during a ballgame will probably be less satisfying than the first.

Diminishing marginal utility gets at the notion that we are likely to derive less satisfaction from each additional unit we consume during a given period of time. For example, the second hot dog you eat during a ballgame will probably be less satisfying than the first, so you'll be less inclined to spend your money for that second one. And unless you are a hard core fan, the third football game you watch on a Sunday afternoon will probably deliver less satisfaction than the second.

D. Business, Entertainment, or Sport: What Is the Pro Sports Product?

Sports are exciting to watch and fun to talk about. They also give us the opportunity to come together in a public place and celebrate the things we still have in common. Maybe that's why we spend so much time, money, and energy watching games.

But would anyone pay $40 or $50 for a ticket to watch employees at a box factory do their jobs? Better yet, would anyone spend an entire Sunday watching televised box assembly? (Don't give this too much thought. These are NOT trick questions.)

Cardboard boxes are useful products, but they're not very exciting. One field trip to a box factory is enough to last most people a lifetime. But a box factory and a pro sports team have one very important thing

in common: Both are in business to make money. Major League Baseball, the NBA, the NFL, and the NHL are selling a product that blends athletics, business, and entertainment.

The Night Out People

Bob Ryan was scandalized. Any true basketball fan would have been.

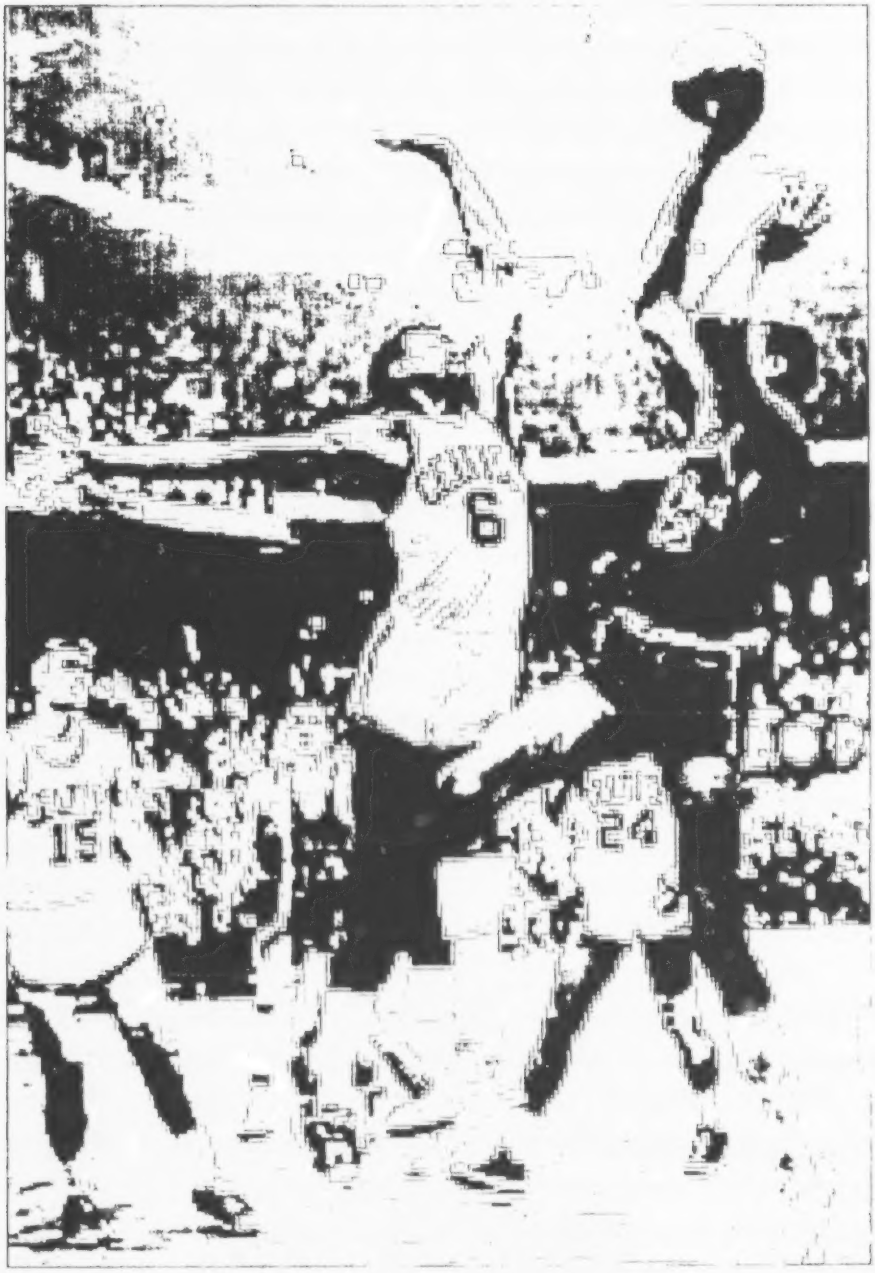
Except that Ryan is no ordinary fan. The veteran columnist for the *Boston Globe* is one of the most knowledgeable basketball observers in the country, and he could not believe what was happening. The Boston Celtics and the Orlando Magic were tied at the end of four quarters and were headed for overtime, but hundreds, maybe thousands, of Fleet Center patrons were headed for the exits.

What kind of fans would walk out of an overtime game? Ryan calls them the NBA's Night Out People—people "who must be fed an unending diet of noise and gimmickry to supplement the actual game."

"Owners of teams are business leaders rather than sports leaders. They market a product. The fact that the consumers are fans means that their sales pitch must stress the excellence of a sports product. But the skills are essentially commercial, nonetheless."
Garry Wills, *Certain Trumpets*

NBA executives readily acknowledge the existence of Bob Ryan's Night Out People. In fact the league gears its marketing towards casual fans—fans that aren't necessarily looking for a pure sports experience. Paula Hanson, the NBA's senior vice president of team operations, told Ryan, "Our overall philosophy is that we want to provide a night of entertainment for a family." Entertainment, in this case, means large-screen videos, blaring music, laser light shows, high-decibel public address announcers, and dancing girls.

But Ryan worries that the emphasis on entertainment might not be in professional basketball's long-term best interest. Sooner or later, he says, fans will realize they can enjoy a night out for a lot less than the price of an NBA game. "Common sense should tell you that if the Night Out People become the majority and the athletically educated fans become the minority, the entire enterprise will collapse."



No one ever left the game early when Bill Russell and Wilt Chamberlain were on the court. (Boston Garden 1962).
Photo by Ollie Noonan, Jr., courtesy of The Boston Public Library, Print Department.

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E. Bill Veeck: Listening to the Fans

Old-time team owners were traditionalists who rarely mixed sports and entertainment. Fans had the game. What more could anyone want?

But there was one owner who saw things differently.

Bill Veeck was a showman and a visionary—a creative, exuberant team owner whose goals were to make money, have fun, and share his love of baseball with the fans; not necessarily in that order.

Bill Veeck wanted fans to have fun at the ballpark, and he never stopped looking for ways to entertain them.

At one time or another during the 1940s, '50s, and '60s, Veeck owned the St. Louis Browns, the Cleveland Indians, and the Chicago White Sox. And he was no stranger to baseball tradition. (His father had been part owner of the Chicago Cubs and had helped to plant the ivy that still covers the outfield walls of Wrigley Field.) But tradition never made him its prisoner.

Bill Veeck.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

Bill Veeck wanted fans to have fun at the ballpark, and he never stopped looking for ways to entertain them. His innovations included: belly dancers, circus acts, marauding Martians, Shakespeare Night, Music Night (free kazoos at the gate for anyone who didn't bring an instrument), an exploding scoreboard (years before anyone else had one), and players' names on the backs of their jerseys.

Sure, there were times when he might have gone a bit too far; like the time in 1951 when he sent midget Eddie Gaedel up to bat. (Gaedel walked on four straight pitches.) But there were also times when Veeck stood head and shoulders above most other team owners—like the time in 1947 when he signed Larry Doby, the first black player in the American League.

What motivated Bill Veeck? Exuberance? Profit? A desire to shake things up?

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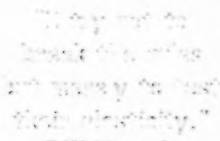
Maybe it was a combination of all three. But most of all, Veeck knew he was competing for entertainment dollars, not just for sports dollars. He understood that people did not *have* to spend their money at the ballpark—that they could spend it just as easily on a movie, a Broadway show, a musical performance, a night of dancing, a good meal, or a dozen other choices.



Bill Veeck, baseball team owner

At a time when most team owners thought fans should be content just to watch "the national pastime," Veeck knew otherwise. He always listened to the paying customers, not by assembling a focus group, but by sitting next to them in the stands and taking the time to talk with them.

Veeck's zany promotions gave fans the one thing they wanted in exchange for their entertainment dollars: entertainment. But it was entertainment provided by someone who knew baseball and loved the game.

His philosophy did not win him many friends among other baseball team owners during the 1940s, '50s, and '60s. To them he was maverick who was making a mockery of *their* sport.

But eventually the times caught up with Bill Veeck. Nowadays, even the most traditional owners are willing to acknowledge what he had

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Inning 2: The Market for Pro Sports (Part 1 of 3)

Markets develop when buyers and sellers freely come into contact with one another. Every market has a "demand side" (buyers) and a "supply side" (sellers), and the interaction between buyers and sellers helps to determine prices. (More on this in Innings 4, 5, and 6.)

Sometimes markets are defined by geography:

- **Local/regional markets**—buyers and sellers live in the same city or the same part of the country;
- **National markets**—buyers and sellers live in different parts of the country;
- **International markets**—buyers and sellers live in different parts of the world.

And sometimes markets are defined by what is bought and sold:

- **Product** markets for goods and services;
- **Labor** markets for talents and skills;
- **Financial** markets for money.

The growth of spectator sports offers a prime example of how markets develop and why they evolve.

A. Take Me Out to the Ballgame

What's the one thing a professional sports team can't do without? Fans!

Talent is important; so is a big TV contract. A state-of-the-art sports facility is nice, too. But fans are the key to everything, and that's why most pro sports teams are located in large metropolitan areas.

Look at it this way:

- Teams are selling a product;

- Fans are the buyers;
- The more people there are in a team's market area, the bigger the pool of potential fans.

But the key word is "potential," because *potential* fans won't become *actual* fans unless they also have:

- extra money to spend on entertainment;
- enough leisure time to watch a game;
- the desire to spend some of their time and money on sporting events rather than something else; and
- a way to get to the game (a network of roads and public transportation) or a way for the game to get to them (newspapers, radio, television, and the Internet).

Most of these pieces started coming together during the second half of the 19th century when the United States entered a period of remarkable economic growth. Here's the "short course" on how it happened.

Sorry, but we have to use the phrase "Industrial Revolution."

Let's face it, the Industrial Revolution isn't a topic that's likely to make anyone's pulse beat faster. But if it hadn't happened, the world would have been a very different place, and the market for big-time pro sports might never have developed.

What exactly was the Industrial Revolution?

Short answer: An extraordinary change in the way people produce things. It began in Europe during the late 1700s and soon spread to the United States.

Until then, people had worked in small units and used hand tools to produce things in limited quantities. Farm families grew their own food, built their own shelter, made their own clothes, and sometimes earned extra income by producing textiles or handicrafts.

"The market is not an invention of capitalism. It has existed for centuries. It is an invention of civilization."
Mikhail Gorbachev

And in cities and towns, artisans worked at home or in

small shops to produce custom-made items—shoes, clothing, pottery, furniture—for local buyers. In fact, buyers and sellers almost always conducted their business in local markets because travel was slow, expensive, and risky.

Then came the Industrial Revolution, and life changed forever:

- People began to "go to" work. The production of goods shifted from households and small workshops to large mills and factories.
- Labor-saving machinery and new ways of organizing work made it possible for factories to manufacture things in much bigger quantities.
- Farms got bigger and more productive. Machinery and scientific techniques made it possible to produce larger crops with less labor.
- The world became a smaller place. Better transportation—railroads, steamships, canals, bridges—helped to cut shipping times and freight costs. And better communications—telegraph and telephones—helped to speed the transfer of information. Two examples from economic historian George R. Taylor illustrate the point:

    1. In 1817 the cost of moving freight from Buffalo to New York was more than 19 cents a ton-mile. In 1840, after the Erie Canal opened, the cost was less than 2 cents a ton-mile.

    2. In 1830, the cost of moving freight from Boston to Worcester, Massachusetts was 17.5 cents a ton-mile. In 1833, after the Boston & Worcester Railroad began operating, the cost dropped to 6.25 cents a ton-mile.

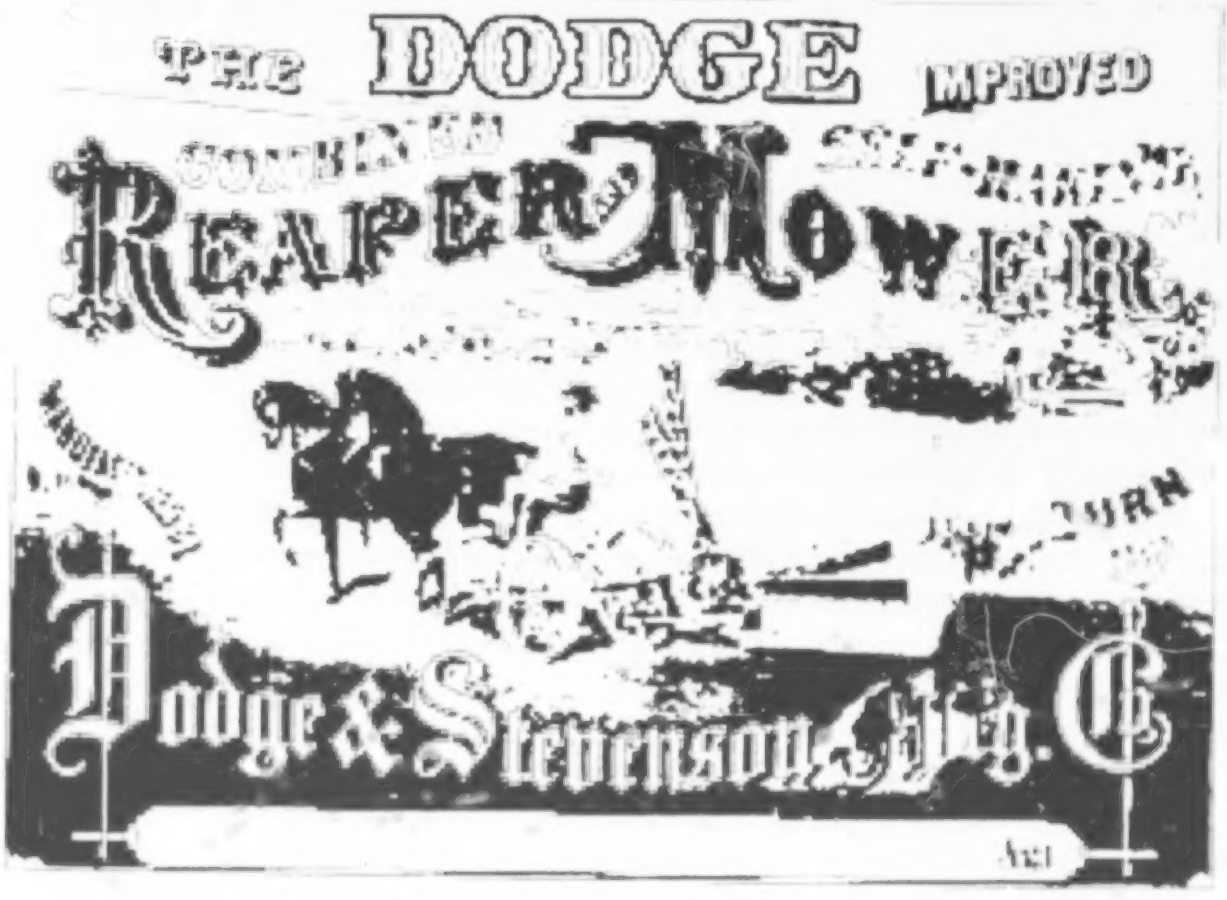
To understand how all this helped to create a market for pro sports, let's take brief look at how the United States changed between 1800 and 1900.

The United States got a lot bigger.

	1800	1900
Number of States	16	47
Total U.S. Population	5,308,483	75,994,575

Farm productivity increased.

Farming became less labor-intensive, crop yields went up, and crop prices went down.



Farm machinery made it possible to produce larger crops with less labor. (Advertising poster, 1871). *Photo courtesy of State Historical Society of Wisconsin, McCormick-IHC Collection.*

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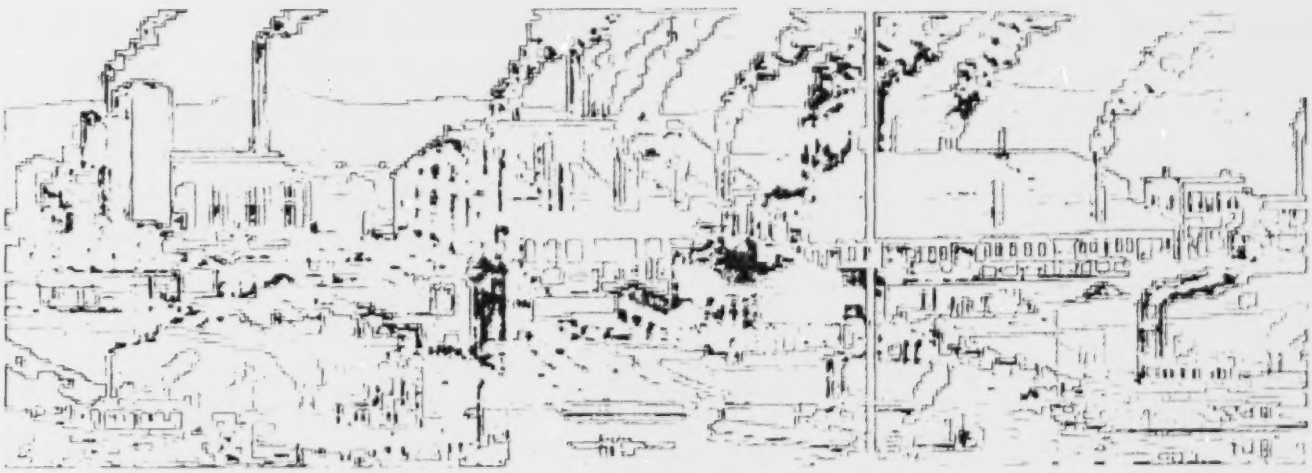
Man-Hours Required to Produce 100 Bushels		
	1800	1900
Wheat	373	108
Corn	344	147

Industry expanded.

	1800	1900
Number of Wage Earners Employed in the Cotton Textile Industry	1,000	303,000
Number of Wage Earners Employed in the Iron and Steel Industry	1,000	222,000
Total Number of U.S. Patents Issued	41	24,644
	1860	1900
Raw Steel Produced in U.S. (short tons)	13,000	11,227,000



Belmont Nail Works, mid-1800s.
Photo courtesy of Prints and Photographs Division, Library of Congress.

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The United States became much more urban.

Urban and industrial growth created a bigger pool of potential sports fans. (Washington Street, Boston, 1904).
Photo courtesy of The Boston Public Library, Print Department.

Rising farm productivity and rapid industrial growth triggered waves of migration to American cities. Most of the newcomers were attracted by the prospect of earning steady cash in factories and offices. Some came from the American countryside, where rising farm productivity had created a labor surplus. Others came from foreign countries where there were limited opportunities for economic or social mobility.

Population of Five Largest American Cities

1800		1900	
New York	60,515	New York	3,437,202
Philadelphia	41,220	Chicago	1,698,575
Baltimore	26,514	Philadelphia	1,293,697
Boston	24,937	St. Louis	575,238

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Percentage of the U.S. Population Living in Urban Areas (Places with 2,500 or more people)	
1800	**1900**
5.7 percent	39.6 percent

"Real" wages increased.

Time out for an explanation: The dollar amount on a paycheck—also known as the **nominal wage** or **money wage**—doesn't always reflect a person's actual buying power. That's why economists often focus on the **"real" wage**, which measures the quantity of goods and services a paycheck will buy.

When the 19th century began, most people made their living as small farmers or artisans. And for many of them there was no such thing as a "steady income."

Farmers were always at the mercy of insects, blights, or bad weather. And even in the best of times, cash was so scarce that people often resorted to barter.

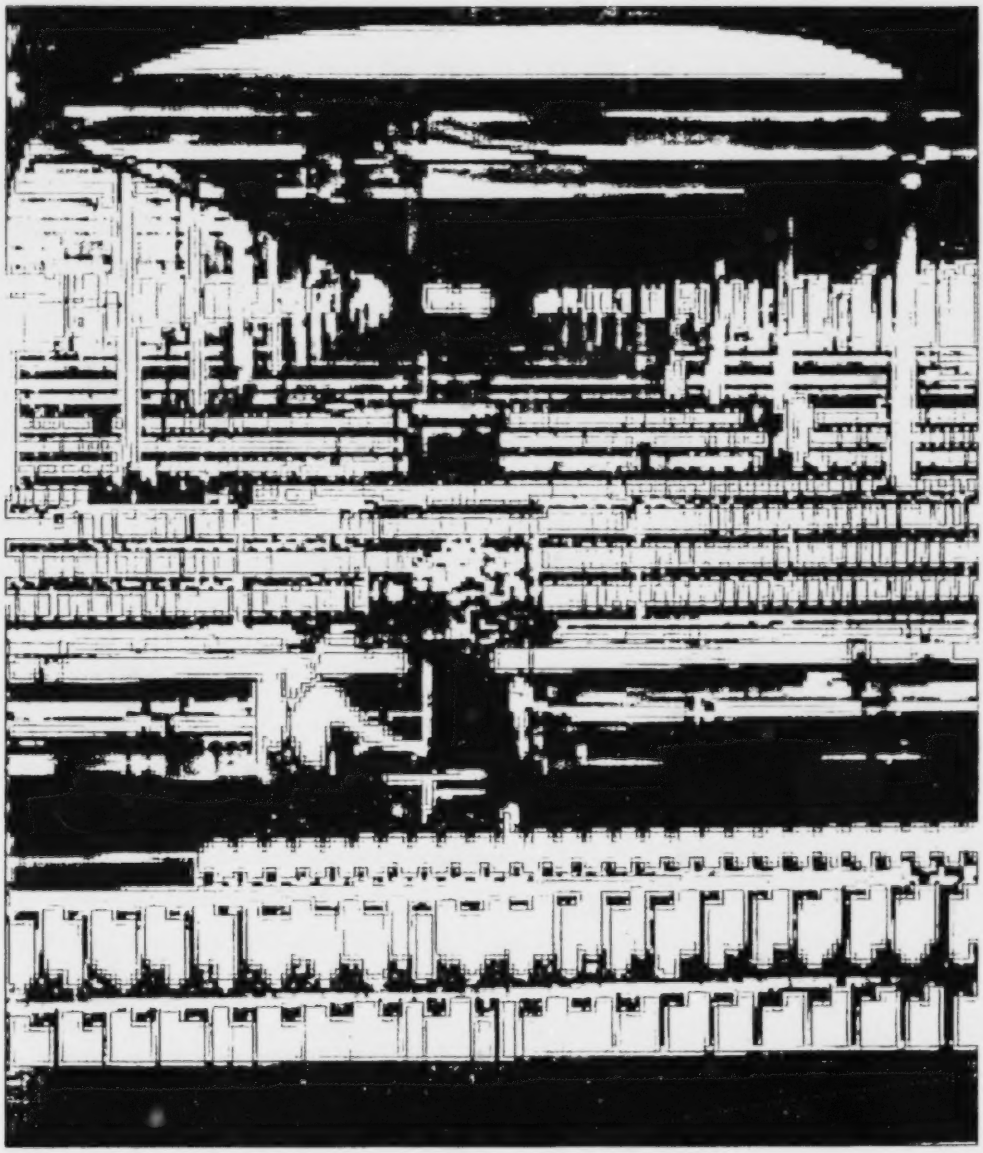
One of the major economic changes to come out of the Industrial Revolution was an increase in jobs that offered people a chance to earn steady cash wages.

The average "money wage" for American workers was actually lower in 1900 than in 1865. But in "real" terms, they had more buying power—they were able to buy more stuff with the money they earned.

Average Annual Earnings for Nonfarm Employees, 1865 and 1900		
	Money Wage	Real Wage
1865	$512	$328
1900	$483	$573

Why did real wages increase? Two main reasons:

1. **Economies of Scale**



Cotton mill, Adams, Massachusetts, 1910.
Photo courtesy of Prints and Photographs Division, Library of Congress.

The savings—or "economies" —that resulted

2. from large-scale production helped to lower the cost of food and manufactured goods. Labor-saving machinery, standardized

parts, and better organization made it possible for factories and farms to reduce their "per unit" costs. Mills and factories were able to produce more yards of cloth at a lower cost per yard; more tons of steel at a lower cost per ton; more pairs of shoes at a lower cost per pair. Farmers were able to produce more bushels of wheat at a lower cost per bushel or more bales of cotton at a lower cost per bale.

3. **Markets expanded and competition increased.**

   Faster, cheaper transportation made it possible for farmers and manufacturers to connect with consumers in distant markets. The result was more competition among sellers; more choices, greater variety, and lower prices for consumers.

Miles of Railroad Track	
1830	**1900**
30	258,784

More Leisure Time

Thanks to the increase in "real" incomes, people could afford to work fewer hours. They could afford to "buy" more leisure time.

The necessary pieces for a pro sports market were falling into place:

- Urban and industrial growth created a bigger pool of potential sports fans; and
- The increase in "real" wages gave fans enough extra time and money to spend on entertainment.

Only one piece was missing.

Getting to the Game

In the mid-1800s, a trip to the ballpark required dedication and endurance. Fans who didn't live within walking distance, faced an odyssey of train rides, ferry crossings, and horse-drawn coach trips.

In order for pro sports to prosper, getting to the game had to become easier. The solution came in the form of public transportation systems.

Trolleys, subways, and better streets helped to expand the market for pro sports by making games accessible to more fans. (Trolley Track Construction, Malden, Massachusetts, 1902).
Photo courtesy of The Boston Public Library, Print Department.

Urban growth had created the need for a quick, affordable way to move lots of people over longer distances. City governments and private companies responded by building networks of electric trolley car lines (late-1880s) and subway tunnels (late-1890s and early-1900s).

And of course, the same streetcars and subways that carried people to work also helped to expand the market for pro sports by making games accessible to more fans.

Electric Street Railways, 1890-1937		
Year	Number of Companies	Miles of Track
1890	789	5,783
1907	1,236	25,547
1922	1,200	31,264
1937	478	14,214

All statistics in this section: *Historical Statistics of the United States, Colonial Times to 1970*, U.S. Department of Commerce, Bureau of the Census.

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Inning 2: The Market for Pro Sports (Part 2 of 3)

B. I Don't Care If I Ever Get Back

Nineteenth century Americans could have spent their extra time and money on anything. Why did so many *choose* baseball?

Four reasons:

- The Industrial Revolution changed the way people worked and played.
- Baseball was an outlet for the tensions and anxieties caused by rapid change.
- Baseball helped to create a common American identity.
- Going to a ballgame was fun.

The Industrial Revolution changed the way people worked and played.

Before the Industrial Revolution, the world was a far less productive place. The way people worked—the tools they used, the way they organized tasks—changed very little from one generation to the next.

Life was slower. The sun and the seasons governed the pace of work. There were no whistles or timeclocks to signal the start of a job or the end of lunch.

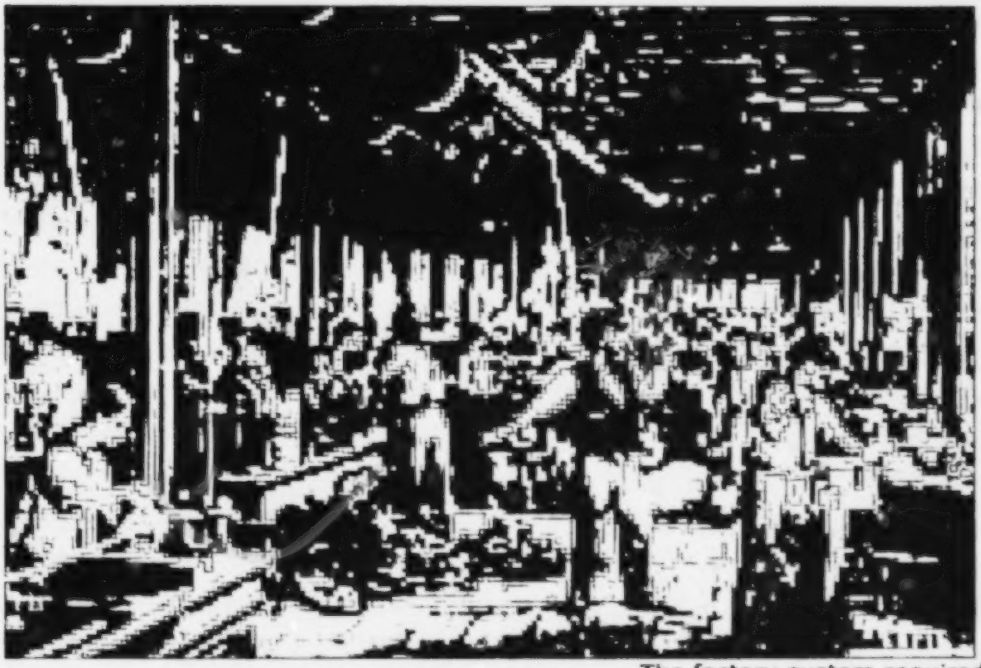
Workplaces were smaller, and the relationship between bosses and workers was more personal. Young apprentices and journeymen learned their craft from master artisans. More often than not, they lived under the same roof and ate their meals at the same table. And most markets were local. Buyers and sellers almost always lived within a day's walk of one another.

Then came the Industrial Revolution, and life changed forever. Production shifted from small workshops to large factories, and the demands of mass production forced workers to adjust the rhythms of their lives to the clock.

Cabinetmaker, 1807.
Photo courtesy of Prints and Photographs Division, Library of Congress.

Historian Benjamin Rader describes the transformation:

"Masters, journeymen, and apprentices no longer worked side-by-side nor were their relationships any longer governed by custom; the factory substituted rigid discipline for the casual work patterns of an earlier era."



The factory system required a sharp **division of labor** and a greater degree of **specialization**. Production was divided into a series of simple, repetitive tasks. Instead of learning to make an entire table from start to finish, a factory worker might spend the day running a machine that shaped only the table legs.

The factory system required a sharp division of labor and greater specialization. Production was divided into a series of simple, repetitive tasks. (Lathe and press room, McCormick Reaper Works, 1885). *Photo courtesy of State Historical Society of Wisconsin, McCormick-IHC Collection.*

Office work changed, too. A typical office in the early 1800s was a small operation, staffed by a handful of clerks who had the opportunity to learn every aspect of a business. A clerkship in the right office was considered a steppingstone to business success.

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The Industrial Revolution also helped to create a new class of white-collar professionals— managers, accountants, attorneys, and engineers. (Student bank, Boston English High School, 1892).
Photo courtesy of The Boston Public Library, Print Department.

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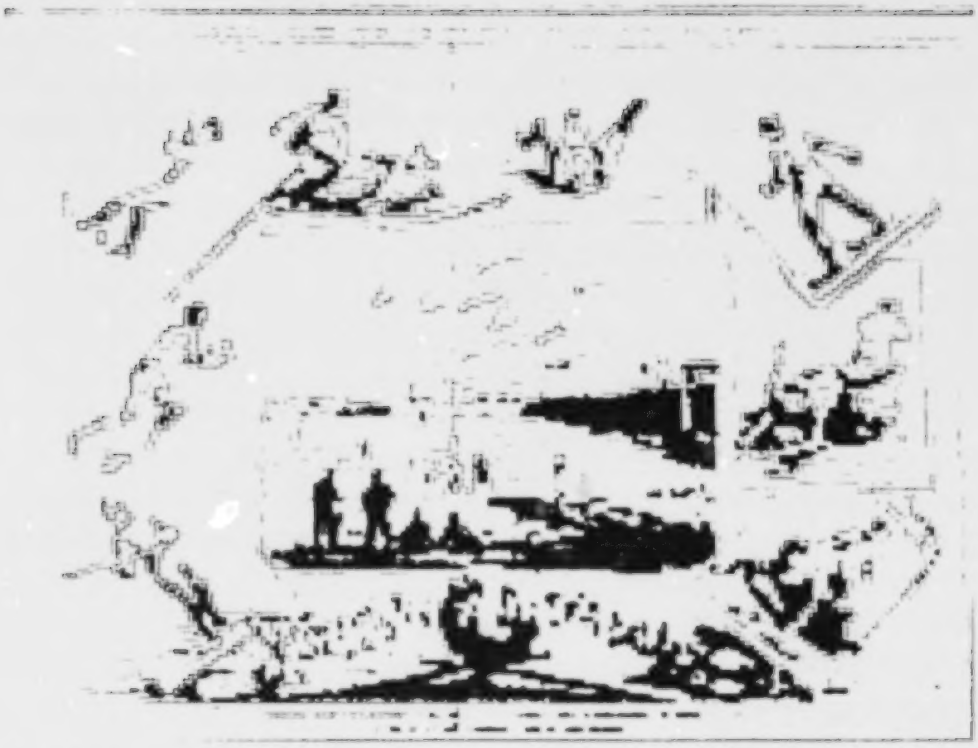
But by 1850 economic growth and industrial expansion had created the need for more office workers. Offices grew in size, and office work, like factory work, became much more specialized. Clerks gave way to office specialists— bookkeepers and stenographers—who worked at narrowly defined tasks.

The Industrial Revolution also helped to create a new class of white-collar professionals— managers, accountants, attorneys, engineers. But as Benjamin Rader points out, "much of the work was sedentary, routine, and lacking a capacity to offer intrinsic satisfaction."



The division of labor on the baseball field resembled the division of labor in the factories and offices where fans worked. Each player had a specialized job: pitcher, catcher, infielder, outfielder.
Photo courtesy of The Boston Public Library, Print Department.

What does this have to do with baseball? More than you might think.

The structure of baseball reflected many of the changes that were transforming every aspect of 19th century American life. In many ways, baseball was the factory system—or the modern office—on green grass.

The hierarchy of owners, managers, and players was very much like the pecking order at the factories or offices where fans spent their working days. There was also a division of labor and a degree of specialization on the playing field—pitcher, catcher, first base, second base, third base, shortstop, left field, center field, and right field—that resembled the division of labor in a factory or office. In short, baseball had a connection to the way fans lived and worked.

Baseball was an outlet for the tensions and anxieties caused by rapid change.

Walt Whitman
Photo courtesy of Prints and Photographs Division, Library of Congress.

Nineteenth century Americans worried that urban, industrial life was driving them indoors, isolating them from nature, making their bodies soft, and setting their nerves on edge.

Writing for *The Atlantic Monthly* in 1858—more than a century before the phrase "couch potato" would enter the language—Oliver Wendell Holmes lamented that "our Atlantic cities" were home to so many "stiff-jointed, soft-muscled, paste-complexioned youth."

That same year, poet Walt Whitman held out the hope that baseball might counter the effects of living in crowded cities and working at sedentary jobs:

"I see great things in baseball. It's our game—the American game. It will take our people out of doors, fill them with oxygen, give them a larger physical stoicism. Tend to relieve us from being a nervous, dyspeptic set. Repair these losses, and be a blessing to us."

Baseball appealed to harried city dwellers because it offered them a way to unwind and regain their bearings. Fans could spend the afternoon sitting around an enclosed urban meadow—a place with green grass and no time clock.

Playing ball in a tenement alley, 1909.
Photograph by Lewis W. Hine, courtesy of George Eastman House.

Baseball helped to create a common American identity.

Nineteenth century American cities threw together migrants from the American countryside and immigrants from around the globe. They crowded together in strange, new surroundings and they often competed for the same jobs. The only thing they really had in common was the desire for a "better life."

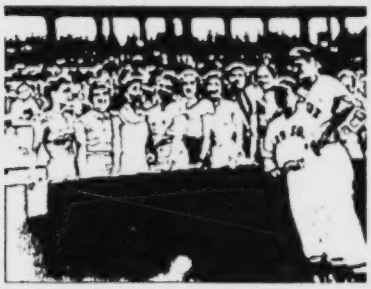
Baseball helped to ease the anxieties and

tensions of urban life by giving everyone a common frame of reference. Cheering for the home team brought strangers together, gave them a sense of community, and helped them to forge an identity as citizens of a new city and a new country. Cultural differences and class lines blurred at the ballpark.

In a 1912 article, "Baseball and the National Life," H. Addington Bruce observed: "The spectator at a ballgame is no longer a statesman, lawyer, broker, doctor, merchant, or artisan, but just a plain every-day man, with a heart full of fraternity and good will to all his fellow-men—except perhaps the umpire. The oftener he sits in grand stand or 'bleachers,' the broader, kindlier, better man and citizen he must tend to become."

Italian immigrant family looking for lost baggage, 1905.
Photograph by Lewis W. Hine, courtesy of George Eastman House.

Going to a ballgame was fun.

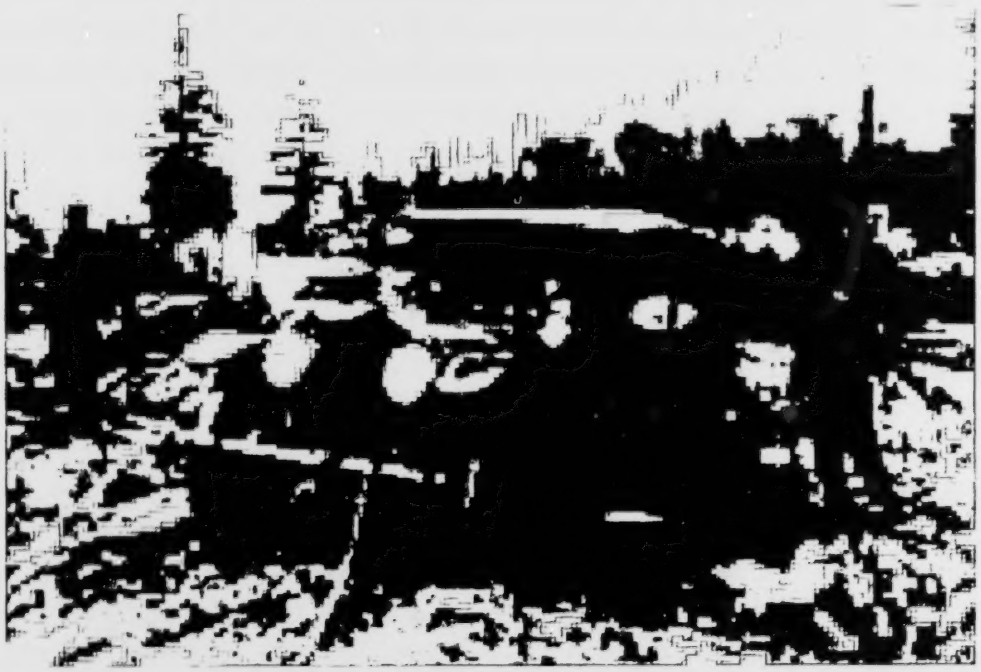


Sox fans enjoying an afternoon at the ballpark. Fenway Park, Boston, 1940s.
Photograph by Leslie Jones, courtesy of The Boston Public Library, Print Department.

One more thing: A game doesn't become "The National Pastime" just because it reminds people of work or because it helps to make them model citizens. When you get right down to it, baseball thrived because fans derived utility from "consuming" it. A day at the ballpark gave them what they were looking for—fun, excitement, and relaxation.

Inning 2: The Market for Pro Sports (Part 3 of 3)

C. The Market Expands: Pro Sports Moves to the Sun Belt



If fans had to travel over roads like these, the market for pro sports might never have expanded beyond the big eastern cities.
Photograph courtesy of the Federal Highway Administration.

We like to think of sports as a touchstone—a source of comfort and stability in an uncertain world. The hometown team is supposed to be our team for life.

But the reality is that pro sports is a dynamic business. Markets evolve and teams move from one city to another. The Boston Braves became the Milwaukee Braves and then the Atlanta Braves. The NFL's Chicago Cardinals moved to St. Louis and then Phoenix. The Minneapolis Lakers moved west to become the Los Angeles Lakers.

Until the 1950s, pro sports was mainly an eastern, big city phenomenon. There were no major league baseball teams south of Washington, D.C. or west of St. Louis. The same was pretty much true for football, basketball, and hockey.

Just look at the NBA and NHL standings for the 1955-1956 season. You can count the teams on you fingers.

NBA Standings, 1955-1956	
Eastern Division	**Western Division**
Philadelphia Warriors	Fort Wayne Pistons
Boston Celtics	Minneapolis Lakers
New York Knickerbockers	St. Louis Hawks
Syracuse Nationals	Rochester Royals

NHL Standings, 1955-1956
Montreal Canadiens
Detroit Red Wings
New York Rangers
Toronto Maple Leafs
Boston Bruins
Chicago Blackhawks

Times have certainly changed. In the NBA, only the Celtics and Knicks are still in the same city. And as for the NHL . . . well, teams are playing ice hockey in places like Dallas and Phoenix.

Demographics and technology had a major impact on the pro sports market during the second half of the 20th century:

- Transcontinental air service made it possible for teams to travel farther and faster on road trips.

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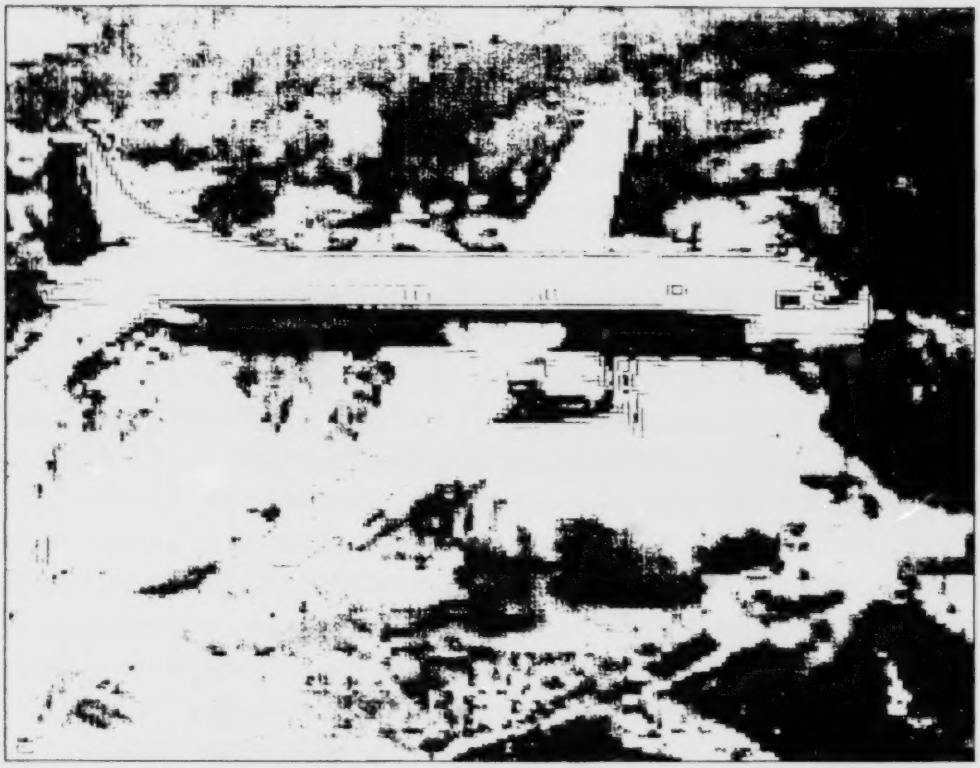

The Dodgers Team Plane, 1950s.
Photo courtesy of National Baseball Hall of Fame, Cooperstown, New York.

- Television helped to expand the pro sports market by putting more fans in touch with the games. The number of U.S. households with television sets went from 8,000 in 1946 to 59.5 million in 1970.
-
- Affordable, efficient air conditioning helped to make Sun Belt cities like Dallas and Phoenix more comfortable places to live. Example: Between 1940 and 1990, the population of Phoenix went from 106,818 to 983,403.
- Government investment in highway construction and a surge in car ownership encouraged economic growth in Sun Belt communities and turned them into attractive sports markets.
-

Watching TV together, 1957.
Photo courtesy of Prints and Photographs Division, Library of Congress.

Passenger Cars Registered		
	1950	**1995**
Total Number Registered	40,339,000	128,387,000
Number per 1,000 Persons	265.6	488.6

Source: *Historical Statistics of the United States, Colonial Times to 1970*, U.S. Department of Commerce, Bureau of the Census and Statistical Abstract of the United States

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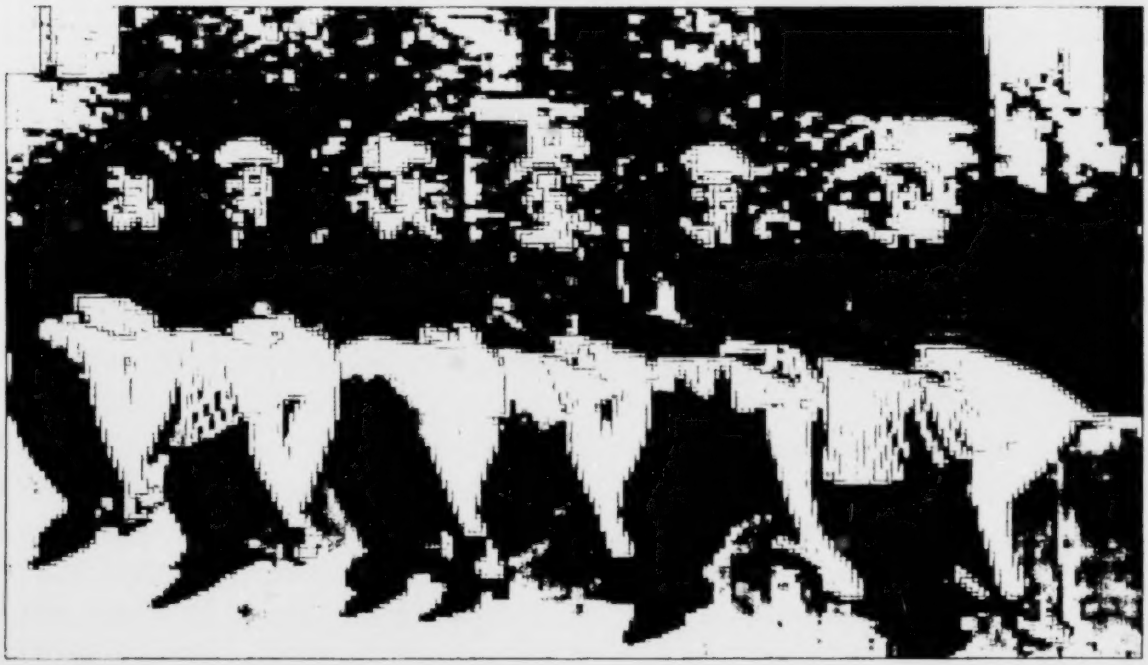
D. NFL 101: Reaching Out to New Fans



Cheerleaders, 1930.
Photograph courtesy of Prints and Photographs Division, Library of Congress.

Everyone knows the old cliche. Guys spend fall Sundays watching football and consuming the maximum yearly allowance of junk food, while their wives and girlfriends wonder what kind of moron can watch more than one game in a day.

So, why did 500 women show up at the New England Patriots' stadium on a Tuesday evening in November 1999? Was it some kind of protest?

Not at all. The women were fans. They had paid $25 each to attend "NFL 101," a workshop designed to help them learn more about professional football. And for the second year in a row, the event was a sellout.

Players and coaches talked to the women about the essentials of football—penalties, scoring, official signals—and offered hints for enjoying the game. Video clips on the evening news gave every indication that a good time was had by all.

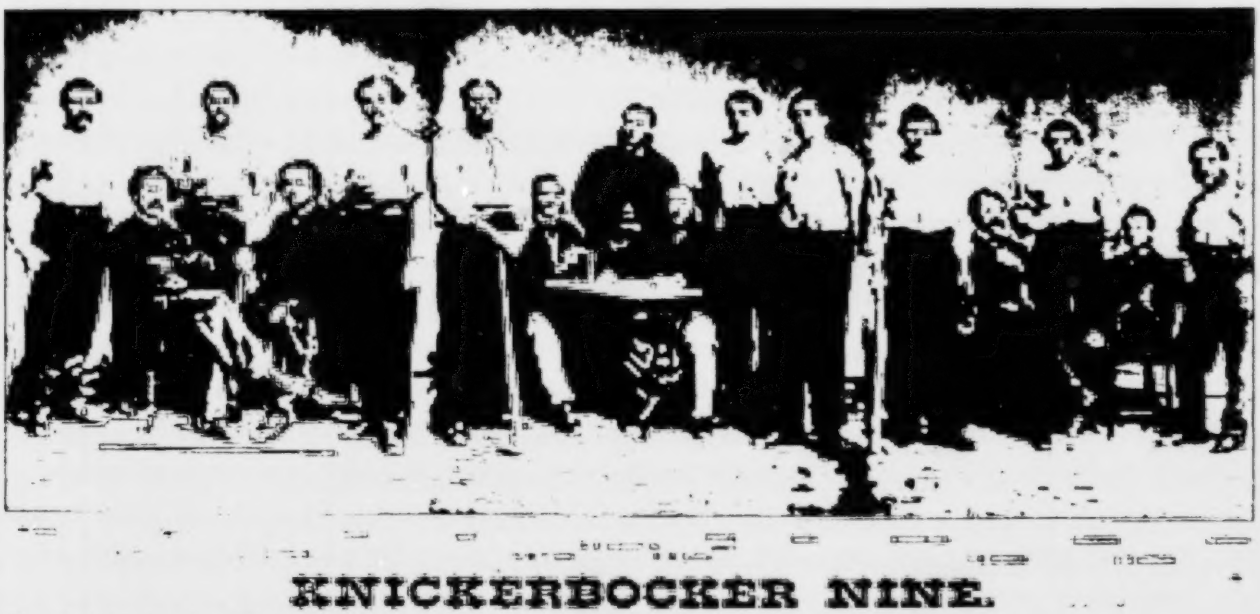
Inning 3: Producing the Pro Sports Product

Some of the toughest economic issues in sports—or any other business—revolve around one very basic question:

What is the most effective way to organize materials, labor, and capital to produce goods and services?

A. From Amateur Recreation to Organized Enterprise

Baseball was the 1840s equivalent of beach volleyball. The idea might sound far-fetched at first, but think about it. Both sports began as a loosely organized form of amateur recreation and evolved into a highly structured business that sells a product based on fun and leisure.



The Knickerbocker Nine, 1864.
Photo courtesy of The Boston Public Library, Print Department.

Stage One: Just Having Fun

A quirky collection of amateur baseball players in 1845—or beach volleyball players in 1980—get together on weekends to compete for fun. Bragging rights are the only thing at stake.

The atmosphere is relaxed and the organizational structure is loose. Maybe there's a club president to schedule the weekend competitions and a club treasurer to collect dues for refreshments or club jerseys. But that's as structured as things get because everyone is more interested in fun than profit. No one even thinks about selling tickets to the handful of friends, family members, and curiosity seekers who show up to watch.

Stage Two: Fun and Profit

Things start to get more serious when some of the participants realize that their game is a potential moneymaker. Promoters develop a formal competition schedule. Then they enclose the playing area with fences to keep out nonpaying spectators. Some of the more business-minded promoters even pay popular players in the hope that "star power" will attract more ticket buyers.

None of this sits well with purists, who worry that money is taking the enjoyment out of their recreation. They miss the fun and spontaneity of the old days.

Stage Three: It's a Business

The debate between purists and professionals is over. Now there is no denying that the game has become a product with commercial value. The loose organization and spontaneity of the early days are a distant memory. Athletes have become paid employees. Spectators have become paying customers. And event organizers have become team owners, who focus on how to get the maximum commercial value from their product.

B. The Role of Inputs

Economists sometimes talk about factors of production or inputs—labor, materials (land, natural resources, or raw materials), and capital. Here's what that means in the pro sports business.

- **Labor** includes, players, coaches, trainers, groundskeepers, and umpires or referees—all the people who make the games happen on the field.

- **Materials** include the land where a ballpark sits and the water and fertilizer that help keep the grass looking good.

- **Capital** is the actual ballpark structure, the arena building, training equipment, a Zamboni, and the "tools" of the game; it can be something as simple as a baseball bat or as complex as an exploding scoreboard.

There is also **human capital**—the special skills and talents an athlete possesses: a strong arm, an extraordinary sense of balance, an uncanny ability to make the right move under pressure. Teams invest in human capital when they do things to help players sharpen their skills. A major league team that supports minor league player development is investing in human capital. Players who work out during the off-season are investing in their own human capital.

The **production process** uses **inputs**—labor, materials, and capital—to create a more valuable product or service. Professional sports organizations use the special skills of pitchers, quarterbacks, point guards, and goalies to produce a season's worth of games that is worth more than the players' combined salaries.

But of course, athletic talent isn't the only input. Uniforms, training facilities, travel costs, advertising, and any number of other things go into producing a sports product.

C. Uncommon Sports Questions

Q. Why do people organize professional sports teams?

A. *Lots of reasons—attention, recognition, ego, civic pride, or maybe just because they think sports are fun. But the main reason for organizing a* professional *sports team is to make money—to generate revenue and make a profit.*

Q. What's revenue?

A. **Total Revenue = (Price) x (Quantity)**. *For example, the total ticket revenue for a single game would equal the price per ticket multiplied by the number of tickets sold.*

Q. Is revenue the same as profit?

A. *No.* **Profit = (Total Revenue - (Total Cost)**. *Costs are things like player salaries, travel expenses, stadium maintenance, and equipment costs.*

Q. What is a professional team's primary business goal?

A. *A sports team—or any other profit-oriented business—wants to have the largest possible (positive!) difference between* total revenues *and* total costs. *To put it simply, a team would like to take in as much revenue as possible from ticket sales, concessions, broadcasting rights, and licensing fees, while paying out as little as possible in salaries and other costs.* (For more on sports revenues, see Inning 4.)

Q. So, what is the most effective way for a sports team to organize production in order to maximize revenues and profits?

A. Glad you asked. We'll explore that question in the next section.

D. Why Form a League?

Could individual teams succeed without a league? Maybe, but they would be a lot less prosperous.

Even if there were no NFL, the Dallas Cowboys, the Chicago Bears, the Pittsburgh Steelers, and the Denver Broncos might still be able to assemble talented teams and make a respectable profit. But together, in a strong, well-run league, team owners have a better chance to improve the quality of their product and protect the value of their investment. Forming a league is the most effective way for team owners to produce a sports product.

A league adds value to the professional sports product by doing things that fans often take for granted:

- **Scheduling**—A league establishes a formal schedule and requires teams to play every game. Sounds like a simple thing, but it is vital to a professional sport's economic survival.

  Without schedules, professional sports would be very different. Fans would have to rely on word-of-mouth to find out about a game, and TV crews probably wouldn't bother to show up for a

game that might or might not happen. Teams would have to scramble for a place to play because they couldn't afford to build and maintain ballparks unless they had a solid base of paying customers and a steady stream of revenues. In short, professional sports would be like playground games for poorly paid adults.

- **"Protect the Best Interests of the Game"** —A league establishes rules, standards, and business practices that are intended to maintain the quality of play and the overall value of the league's product. Can players use certain types of equipment? Are the contests getting too violent? Would a rules change make the game more exciting? Is the revenue gap between rich teams and poor teams leading to lopsided competition? These and other issues are decided by league officials in consultation with team owners.

- **Joint Revenue Agreements**—A league handles negotiations with outside vendors such as television networks, trading card companies, and apparel manufacturers. Joint negotiations almost always bring in more money per team, because the teams have more bargaining power when they are united in a league.

- **Marketing**—League-wide marketing campaigns help teams hold the interest of longtime fans and attract the attention of new fans.

But most important of all . . .

- **A league controls the number of teams**. When team owners join together in a strong league, they have the power to say when, where, and how much their league will expand. Not only can they control the total number of teams, they can also protect one another by limiting the number of teams in a particular market area. If investors want to start a team, they have to submit a proposal to the league and win the approval of existing team owners. Then, even if the proposal is approved, the new investors must buy their way into the league with a very steep franchise fee that is split among the existing owners.

Of course, if enough investors are determined to start new teams, they can try to establish a league of their own. But going head-to-head against the "Big Four" is no easy task.

Could individual teams succeed without a league? Maybe, but they would be a lot less prosperous. (National League owners, 1897).
Photo courtesy of The Boston Public Library, Print Department.

The one truly successful new league in modern sports history was the American Football League, and its survival proves the old adage that "timing is everything." Conditions for starting a new pro football league were ideal in 1960: Fans were going wild for the game; the relationship between sports and television was beginning to flourish; and the NFL had been slow to expand into new markets.

But more often than not, new leagues end in failure. The American Basketball Association, the American Basketball League, and the World Hockey Association lasted only a few seasons. The United Baseball League never even made it to opening day.

The biggest barrier facing a new league is lack of television money. Without it, teams can't afford to attract and keep the talented players that fans want to see. But in order to win a sizable television contract, an upstart league needs to demonstrate that it can: 1) lure enough viewers away from the established leagues, and 2) offer networks the

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same degree of prestige they derive from televising the NBA, the NHL, the NFL, or MLB.

Which raises the issue of fan expectations. Maybe the viewers who watch the National Arm Wrestling Championship or American Gladiators are looking for straightforward fun and entertainment, but traditional sports fans seem to expect more. Those exuberant souls, who paint their faces and take off their shirts in sub-freezing weather, are really conservatives at heart. They want the "real thing."

E. Baseball "Turns Pro": A Timeline

Early baseball teams were often gentlemen's clubs for dues-paying amateurs—doctors, lawyers, clerks, and the occasional skilled artisan. To this day, baseball teams are still called ball clubs.

But other groups—firefighters, police officers, factory workers, saloon owners, neighborhood associations, religious groups—formed teams, too.

The following timeline looks at how baseball went from an amateur game to a moneymaking enterprise. Read it and you'll see why so many important economic issues are related to the way a business organizes the production process.

1846—Two ballclubs, The New York Nine and the Knickerbockers, cross the Hudson River on June 19 and make their way to Elysian Fields in Hoboken, New Jersey, where they meet in the first recorded game of organized baseball. One of the Knickerbockers, a bank clerk named Alexander Joy Cartwright, has helped to devise the game's rules and serves as umpire. But that doesn't help his team. The Nine beat the Knickerbockers 23 to 1.

1856—The New York *Mercury* makes the first journalistic reference to baseball as "The National Pastime."

1857—Amateur ballclubs in and around New York City form the National Association of Base Ball Players to oversee the quality of play. Association rules prohibit players from receiving compensation or betting on games, but both rules prove difficult to enforce.

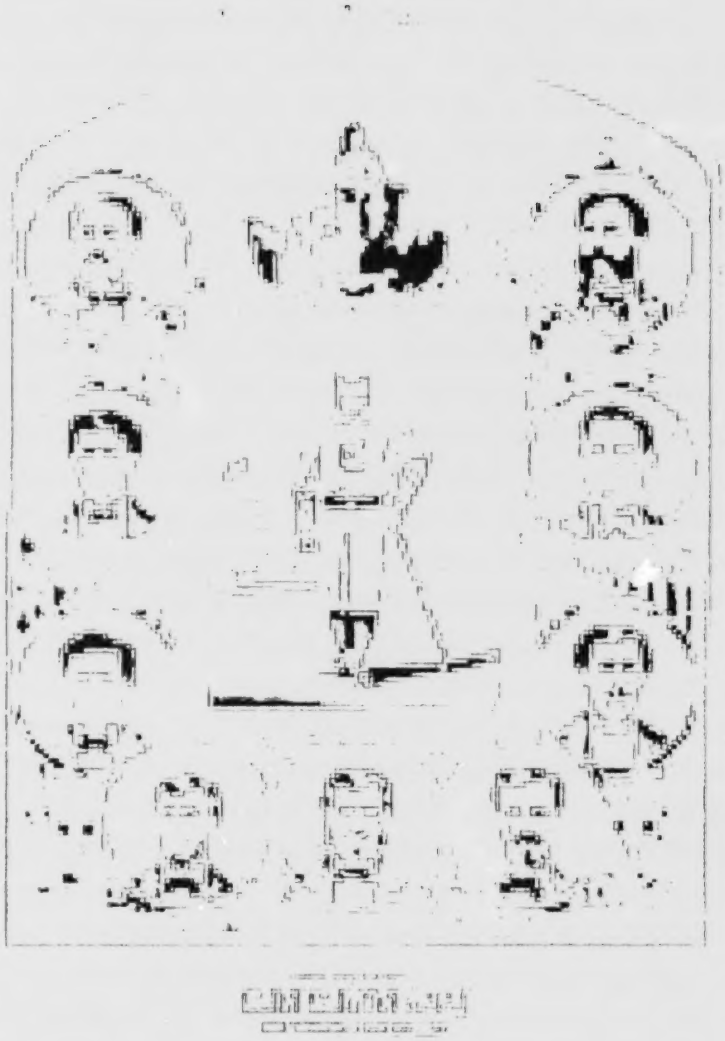
1858—For the first time, spectators pay to see a baseball game. All-stars from New York and Brooklyn meet at a neutral site—Fashion Race Course on Long Island. The game's organizers charge an admission price of 50 cents to cover groundskeeping expenses, but the price doesn't deter fans. The game draws a large crowd of paying spectators and demonstrates that baseball is a product with commercial value.

After helping to devise the rules for baseball, Alexander Joy Cartwright headed west in The California Gold Rush of 1849 and eventually found his way to Hawaii, where he's buried.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

1869—The Cincinnati Red Stockings become baseball's first professional team—players are paid openly rather than under the table. On a national tour they post a record of 59 wins, no losses, and one tie. Two years later, they go into a long losing streak, and their fans desert them. Many of the Red Stockings stars move to Boston, where they form the core of a new team.

1871—Ten ballclubs in the Northeast and Midwest organize themselves in the National Association of Professional Base Ball Players. Each team pays a $10 entrance fee.

The Association, which is run by its players, has three main goals: 1) maintain a regular schedule, 2) make money, and 3) keep the players happy. It fails at the first two, and has only limited success with the third. During its brief existence, the Association has to grapple with team failures, financial instability, and friction between rich and poor teams.



The Cincinnati Red Stockings, 1869.
Photo courtesy of Prints and Photographs Division, Library of Congress.

1875—William A. Hulbert, president of the Chicago White Stockings, wants to field a winning team. He lures Albert Spalding and three other top players away from the Boston Red Stockings, but he worries that other teams in the National Association of Professional Base Ball Players may try to retaliate against him.

Union army prisoners playing baseball at Confederate prison camp in Salisbury, North Carolina, 1864. *Photo courtesy of National Archives.*

1876—Hulbert organizes owners of several teams into the National League of Professional Base Ball Clubs. Each team pays annual dues of $100 and agrees to go along with Hulbert's organizational philosophy, which emphasizes the interests of team owners and the league. Teams must be located in cities with a population of 75,000 or more, and the league guarantees each team a territorial monopoly. The charter clubs are Boston, Chicago, Cincinnati, Hartford, Louisville, New York, Philadelphia, and St. Louis. Teams can be added only if owners approve, and two "no" votes are enough to block a new franchise.

Although some teams soon fail, the league survives and becomes known simply as the National League. (To this day, a few sportswriters and broadcasters still call it "the senior circuit" because it is older than the American League.)

1879—National League players are breaking their contracts and jumping to other teams for more money. Team owners fear that escalating salaries will drive them to financial ruin, so they reach an informal agreement not to tamper with one another's best players.

William Hulbert.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

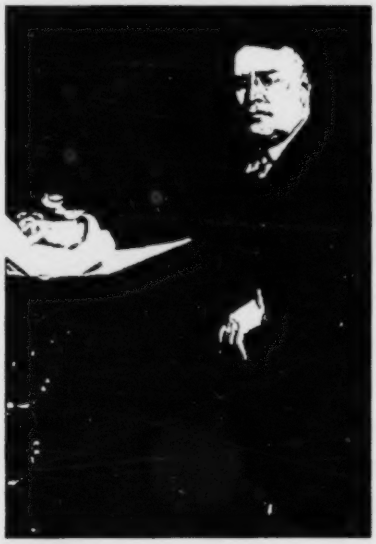
John Montgomery Ward.
Photo courtesy of Prints and Photographs Division, Library of Congress.
Click on photo for a bigger image.

1885—Nine members of the National League's New York Giants, led by star pitcher and Columbia Law School graduate John Montgomery Ward, form the first players union—the Brotherhood of Professional Base Ball Players. Their two major grievances are the reserve system, which forces a player to spend his entire career with the same team, and the $2000 salary cap imposed by National League team owners. By 1886, every National League team except St. Louis has formed a chapter of the Brotherhood.

1889—Declaring that, "Players have been bought, sold, or exchanged as though they were sheep instead of American citizens," John Montgomery Ward launches the Players' League. The league's owners and players will share profits, and there will be no reserve system.

1890—The competition for fans and players weakens both the National League and the Players' League. But National League owners—led by Albert Spalding, who is now president of the Chicago club—bluff everyone into believing that they are in better financial shape than they really are. Players' League investors decide to cut their losses, and the new venture folds after just one season.

1893—Cincinnati sportswriter Byron "Ban" Johnson helps to establish the Western League. He hopes it will offer families an alternative to the rough play and foul language that characterize National League games.



Byron "Ban" Johnson.
Photo courtesy of Prints and Photographs Division, Library of Congress.

1900—The Western League changes its name to the American League.

1901—The American League plays its first season as the country's self-proclaimed second major league. It draws more fans than the National League, and its teams attract many of the National League's top players.

1903—Team owners in both leagues decide that cooperation may be more profitable than competition. They reach an agreement that grants equal status to the American League and serves as the basic business framework for what will become Major League Baseball.

To find out how the business of baseball changed in modern times, see Inning 6, How Free Agency Happened, a Timeline.

Inning 4: How Do Teams and Leagues Make Money?

The pro sports business is booming. Attendance is up, TV viewership is strong, franchise values are sky high, and so are salaries. Where is all the money coming from?

A. Revenues: How Leagues and Teams Make Money

Sports revenues come from three main sources:

1. Television
2. Licensed goods (all those products, from caps to computer games, that carry an official sports logo)
3. Ticket sales and stadium revenues

Let's start with television and focus on the NFL, a league that owes much of its success to television.

Television: The Golden Goose

Ticket sales were once the main measure of a team's financial success. But that was before television became the golden goose of professional sports.

TV pumps tremendous amounts of money into spectator sports, and it connects more fans to the games than ever before. The people who cheer for their teams from recliners and living room sofas are the key to any sport's economic success. Their money fuels the sports boom.

The TV sports gold rush began in 1964, when NFL Commissioner Pete Rozelle convinced team owners that they could increase their revenue by letting the league negotiate a joint television agreement on their behalf.

Events proved him right. The first national contract—a two-year, $28.2 million deal with CBS—seemed like a fortune at the time. But things just kept getting better. By 1998, the NFL had TV agreements with ABC, CBS, ESPN, and Fox for a combined total of $17.6 *billion* over eight years.

First televised baseball game, Princeton vs. Columbia, 1939.
Photo courtesy of The Boston Public Library, Print Department.

Why have television companies been willing to pay the NFL so much money? Because even on a slow Sunday, millions of viewers sit down to watch at least one NFL contest. And although many of these

armchair fans may never actually buy a ticket to a game, they are an audience that advertisers are eager to reach because they spend a lot of money on beer, soft drinks, chips, salsa, cars, trucks, tires, telephone service, financial services, and computers.

Televised games bring together buyers (consumers/fans) and sellers (advertisers and their clients), and they attract fans' attention long enough for advertisers to hit them with commercial messages.

The basics are simple. Broadcast and cable networks pay sports leagues for the national rights to televise games. Then they turn around and sell commercial time to advertisers. When more people watch the games, advertisers are willing to pay higher rates for commercial time because their ads are reaching more potential consumers.

And cable TV adds a few revenue wrinkles of its own because cable networks like ESPN and Fox Sports charge local cable companies a fee for the right to carry their programming. Then the local cable companies charge viewers a monthly cable fee or a pay-per-view fee for special events. Bigger audiences usually mean higher fees for the cable networks and local cable companies.

Bottom line: TV people hope to make a profit by taking in more money from advertisers and cable subscribers than they pay out to the sports leagues for television rights. And so far, they have not been disappointed. Americans remain enthusiastic consumers of televised sports.

The NFL Super Bowl offers a striking example. Thirty seconds of advertising time during the first Super Bowl in 1967 cost $42,000. The same thirty seconds cost advertisers more than $2 million during Super Bowl XXXIV in January 2000.

Licensing Revenue: Cards, Caps, and Computer Games

Licensed products—caps, shirts, cards, computer games, toys, food, beverages, you name it—experienced phenomenal growth during the 1980s and early '90s. Andrew Zimbalist points out in *Baseball and Billions* that total retail sales of goods licensed by Major League Baseball jumped from an already healthy $200 million in 1988 to $2 billion in 1991—a ten-fold increase in just four years.

Sales really took off after the leagues formed their own merchandizing units. NBA Commissioner David Stern pioneered the concept, but everyone else caught on fast.

How successful has the strategy been? Just look at the numbers:

Total 1997 Sales of Licensed Products	
NFL	$3.6 billion
NBA	$3.0 billion
MLB*	$1.9 billion
NHL	$1.2 billion

*MLB figures were $2.5 billion in 1993 but fell to $1.5 billion after the 1994-95 strike
Source: *Sporting Goods Manufacturers Association web site*
http://www.sportlink.com/research

Ticket Revenue: Suite Deals

When it comes to sports imagery, kids and families are a nice, warm "fuzzy." But they are not necessarily where the money is—not in the short term anyway.

Sure, team executives still love to see families and kids in the stands, but pro sports have been shifting to a more corporate—more affluent—customer base. Fans who occupy luxury boxes and club seats are high priority customers.

Luxury suites are an essential feature of every new ballpark, arena, or stadium. Typical suites accommodate anywhere from 10 to 20 people, although some hold even more, and they offer a wide range of amenities not usually associated with going to a ballgame—amenities such as a concierge, valet service, a car wash (by appointment), a wet bar, and food service.

How important are luxury suites? According to most estimates, they bring in anywhere from 5 to 15 percent of total team revenues. The newer the park, the higher the percentage.

Turner Field, home of the Atlanta Braves, opened in 1997 with 59 luxury suites that rented for $120,000 to $200,000 a year. Think about it. A luxury box that rents for $200,000 a season is the equivalent of selling 10,000 individual tickets at $20 apiece.

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And don't forget club seats. Tropicana Field, the domed home of baseball's Tampa Bay Devil Rays, has 100 behind home plate. Each is equipped with a video display terminal that allows fans to call up various camera angles, check the speed of a pitch, and browse the ballpark's food menu. During the 2000 season, Choice Seats went for over $100 per game.

Choice Seats at Tropicana Field are equipped with video display terminals that allow fans to call up various camera angles, browse the ballpark's food menu, and more.
Photo courtesy of the Tampa Bay Devil Rays.

Season tickets are another important source of gate revenue, partly because fans pay for the tickets in advance. The six months worth of revenue generated by a season ticket goes to the team at the beginning of the season. In effect, the team receives an interest-free loan from every fan that buys a season ticket. And in some markets there is no shortage of fans who are willing to part with their money in advance. In Green Bay, Wisconsin, season tickets to Packer games are passed on from one generation to the next and are fought over in divorce settlements.

Another revenue angle is the personal seat license, or PSL. Personal seat licenses have been most widely used in football, but they are spreading to other sports. A PSL isn't a ticket; it is a fee that gives a

fan the *right* to buy a season ticket. The typical PSL costs a minimum of $1,500 but can run even higher depending on the market and the desirability of the seat. Personal seat licenses are marketable–fans can sell them to other fans. But if a team has consecutive losing seasons, the value of a PSL is likely to drop because fewer people want to watch a losing team.

Finally, a relatively recent source of revenue is stadium naming rights. Most sports facilities used to take their names from the team, the team owner, or a geographic location—Tiger Stadium, Wrigley Field, and Fenway Park. But during the 1990s, more sports facilities began to take the names of corporations that were willing to pay for the privilege. The amount varies from one market to another. Staples, the office supply retailer, agreed to pay $100 million over 20 years to put its name on the arena where the Los Angeles Lakers and the L.A. Kings play their games. But in a small market like Milwaukee, Miller Brewing Company paid $41.2 million to have its name on the Milwaukee Brewers' new ballpark for 20 years.

B. Monopoly: How Big Is Too Big?

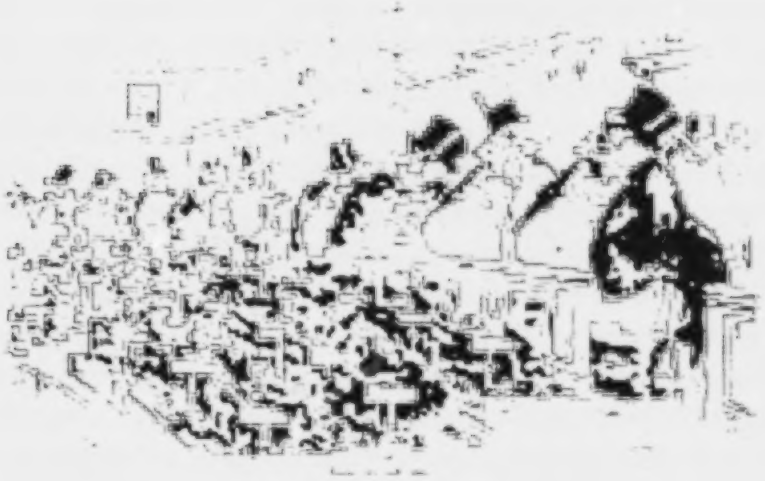
Can a business be too big or too powerful? That's always been a tricky question for Americans to answer.

The savings, or "economies," that result from large-scale production can make more goods and services available to consumers at lower prices ("economies of scale"). But if one seller gets big enough to control the market, there's a chance that prices will rise and innovation will suffer.

Competition keeps sellers on their toes because if they don't offer their customers a good product and decent service at a competitive price, someone else will. But the concept of competition is not as straightforward as it seems. There's more to it than two firms "slugging it out" in the marketplace.

Economists often talk about different types of competition—different types of markets:

- **Perfect competition**—Many sellers in the same market offer the same product or service. None of the sellers has the power to control pricing, and it's easy for new sellers to enter the market.



Monopolies became a major political issue during the late 1800s.
Photo courtesy of Prints and Photographs Division, Library of Congress.

- **Oligopoly**—A few sellers in the same market offer a similar product or service. They have some power to control pricing, and there are some barriers to new sellers entering the market.

- **Monopoly**—Only one seller in the market. The seller has complete control over setting prices, and it's almost impossible for a new seller to enter the market.

Monopolies, originally known as "trusts," became a major economic and political issue during the second half of the 19th century. Public concern focused on whether or not the steel, oil, and railroad trusts were using their size to drive competitors out of business and keep prices high.

The oil and steel monopolies were particularly effective at thwarting competition, and one of their most effective weapons was "predatory pricing." When faced with a new rival, they would cut prices sharply—even to the point of losing money. But because they were so big, they could afford to outlast most of their competitors. Then, when they had the market to themselves, they would push prices up as much as they could.

Big railroads had their own version of "monopoly." With little or no competition, they had the power to set freight rates as "high as the

traffic would bear." High-volume customers sometimes received rebates or preferential treatment, while small farmers and manufacturers often had trouble getting their produce and products to market.

And because monopolies were usually the only "buyer" in a labor market, they also had an impact on wages and working conditions. They had the power to keep wages low—and hours long—because employees had nowhere else to go. There was no other buyer for their labor.

Towards the end of the 19th century, all these factors combined to make Americans increasingly wary of "big business." Growing public concern prompted Congress to pass the Interstate Commerce Act of 1887 and the Sherman Antitrust Act of 1890—both intended to curb the power of monopolies and discourage unfair competition.

Federal antitrust laws even affected professional sports. One of the most famous court cases, *Federal Baseball*, went all the way to the United States Supreme Court and became the basis for major league baseball's exemption from federal antitrust laws.

"I am opposed to millionaires, but it would be dangerous to offer me the position."
Mark Twain

The whole thing started in 1913 when a group of investors established the Federal League as a serious alternative to major league baseball. The new league attracted a few big-name major leaguers by offering them more money—a development that didn't sit well with major league team owners because the competition for top talent forced them to pay higher salaries. Squabbles over star players led to a number of nasty court cases, including an antitrust lawsuit that pitted the Federal League against the major leagues.

The Federal League didn't last long. A combination of high salaries and sagging attendance drove it out of business in 1915. (And because they no longer had to compete for players, major league owners promptly slashed player salaries by up to 50 percent in 1916.)

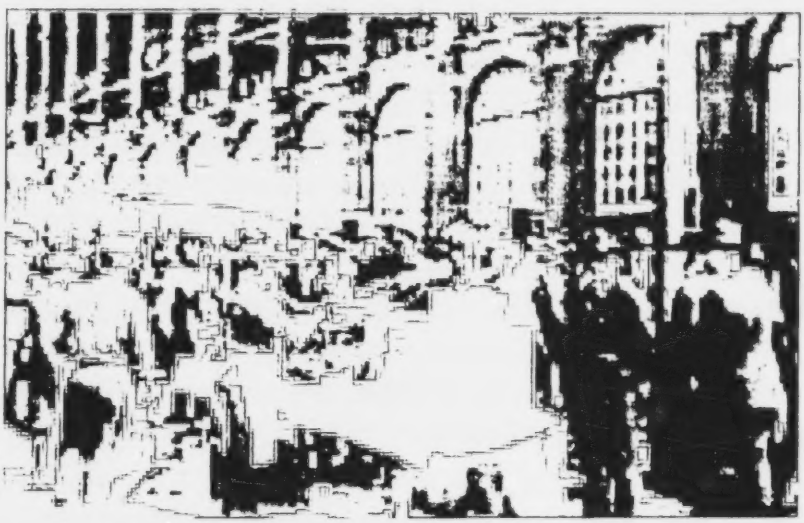
But the Federal League's antitrust case against major league baseball continued in the courts for years, because its Baltimore franchise had refused to join other teams in a $600,000 settlement to formally disband the league. When the case finally reached the United States Supreme Court in 1922, the Court ruled that the Sherman Antitrust Act did not apply to major league baseball because a baseball game

was an exhibition rather than a form of interstate commerce. Even though teams traveled from one state to another, the game itself took place within the borders of a single state and, in the Court's view, that made baseball different from a product that was manufactured in one state and transported to another.

People have been arguing the logic of the Court's decision ever since.

C. Monopoly Rent: Warm, Watery Soft Drinks and High-Priced Hot Dogs

Some fans say a hot dog always tastes better at the ballpark. Maybe they are right, but it usually costs more, too. And chances are that if you buy a soft drink to wash down the hot dog, it will be warmer, more watery, and more expensive than the one you buy at a fast food restaurant. Here's why.



Fans and hot dog vendors outside Ebbets Field, Brooklyn, 1920. *Photo courtesy of Prints and Photographs Division, Library of Congress.*

In a competitive market, sellers feel pressure to provide a good product or service at an attractive price. If they don't, they know someone else will. But in a monopoly market, there are no competitors to restrain the seller from charging a higher price.

Monopoly rent is the difference between the price a seller charges in a competitive market and the higher price that the same seller charges for the same product in a monopoly market.

Example: A vendor at a downtown food court sells hot dogs for $3.00 apiece. The vendor also has the exclusive hot dog concession at the city's big league ballpark. "Exclusive" means no competition, so "hot dog man" charges $4.50—that's $1.50 more for the same hot dog! The difference between the $3.00 price he charges at the competitive downtown food court and the $4.50 he charges at the ballpark is a form of **monopoly rent**.

Inning 5: What Affects the Cost of Going to a Game?

Being a sports fan seems to get more expensive every season. Just look at the jump in average ticket prices during the 1990s:

	Average Ticket Price		
	1991	1999	Percent Increase
Baseball	$8.64	$14.91	72.6 percent
Basketball	$23.24	$48.37	108.1 percent
Football	$25.21	$45.63	81.0 percent

And these are *average* prices. Let's not even talk about filmmaker Spike Lee's $1350-*per game* courtside seats for Knicks games at Madison Square Garden or NFL luxury suites that went for as much as $350,000 per season in 1998.

What happened? How did going to a game get to be so expensive? The answers are in this inning.

A. Demand

It's easy to confuse desire with **demand**, but there is a difference. You might have the desire to buy tickets for a game, but if you don't have enough money, you'll end up watching the action on TV.

But desire is part of the equation, too, because even if you have enough money, you might prefer to spend it on a concert rather than a ballgame. Demand for sports tickets exists when fans have the money *and* the desire to buy them.

What about price? How many tickets will a team sell during the course of a season if the tickets are priced at $30, at $25, at $10? Or, to put it another way, how many tickets will fans demand at each of these price levels? A **demand schedule** and a **demand curve** offer two ways of looking at the relationship between the *price* of tickets and the *quantity* of tickets *demanded* by fans.

Fans scramble for a souvenir, Fenway Park, Boston, 1948.
Photo by Leslie Jones, courtesy of The Boston Public Library, Print Department.

A demand schedule shows the relationship in table form:

Demand Schedule for Tickets	
Price per Ticket	**Quantity of Tickets Demanded per Game**
$50	18,000
$40	21,000
$30	25,000
$20	30,000
$10	38,000

Note: Price per Ticket = an average of all the different price levels of stadium seats.

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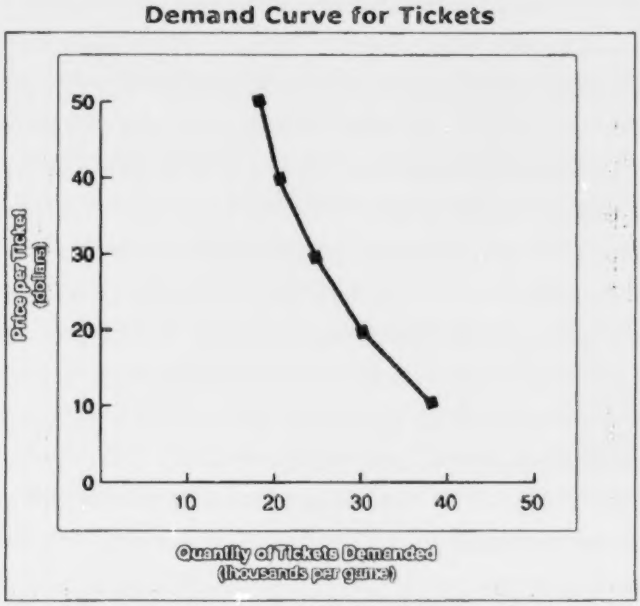
A demand curve shows the relationship in graph form:



Note: Assume that the stadium seats 50,000 fans and the team is winning a few more games than it loses.

Price per Ticket = an average of all the different price levels of stadium seats.

This is probably a good time to make the distinction between ***quantity demanded*** and ***demand.***

Quantity demanded refers to a specific point on a demand curve—how many tickets will be demanded at a given price. When the *quantity demanded* goes down in response to a price increase, the relationship between *price* and *quantity demanded* will be reflected in movement *along* the demand curve.

But what if chronic bickering between owners and players leads to an overall drop in **demand** for baseball tickets at every price level? Or what if the overall demand increases because two very likable superstars are locked in a race to break the single season homerun record? In either case, the overall change in demand will show up as a shift in the entire demand curve to the left or right. An overall decrease in demand will cause the curve to shift left. An overall increase will cause it to shift right.

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A number of factors can influence overall demand:

- **Changes in per capita consumer income**—The increase in real wages during the 19th century helped to create greater demand for professional sports and other forms of entertainment. People had more money in their pockets, and they had more leisure time because they could afford to work fewer hours.

- **The number of consumers in a given market**—New York and Los Angeles are big markets with more prospective ticket buyers and television viewers. Cincinnati and Pittsburgh are considered small markets. Sports economist Roger Noll calculates that the average small market team will draw only a half to two thirds as many fans as a team in a large market.

- **Changes in consumer attitudes, tastes, and/or preferences**—After the 1994-95 baseball strike, fans soured on professional baseball. Overall attendance dropped 20 percent during the 1995 season, and many teams, especially in the smaller markets, offered special ticket promotions to lure fans back—$1 general admission tickets for kids in Pittsburgh or food-and-ticket combos in Detroit, Milwaukee, and a few other cities.

- **Changes in the price of a complementary product**—Don't forget all those other costs—parking, food, souvenirs—that go along with buying a sports ticket. When the price of these complementary products goes up, fans begin to think twice about going to a game. A Melrose, Massachusetts father of four, who works for an athletic shoe company, told the *Boston Globe* that he often turns down free tickets to professional sporting events: "I can't afford to feed them [the kids]. You sit there, and you have a hot dog and a couple of beers [the kids?], and you walk out $100 lighter. I just don't have that kind of money."

- **Changes in the price of a substitute product**—If the price of movie tickets keeps going up, a $10 bleacher seat might not seem so expensive after all.

B. Why Didn't Demand for Tickets Drop When Prices Rose During the 1990s?

When the price of something drops, people tend to buy more of it; when the price rises, they are likely to buy less. Sounds like pretty basic stuff.

So, when ticket prices rose sharply during the 1990s, pro sports attendance should have dropped. But it didn't. Overall demand for professional baseball, basketball, football, and hockey remained strong—even after bitter labor disputes.

Baseball is a prime example. Some markets experienced a steep decline in attendance after the 1994-95 strike. But in other markets, attendance recovered and demand was stronger than ever. (The Cleveland Indians opened a new ballpark in 1996 and sold every seat for the 1996 season *before* Opening Day.) In 1998, total attendance for Major League Baseball hit a record-breaking 70,601,000.

Why? Because in many markets, demand for major league baseball proved to be fairly **inelastic**.

Price elasticity of demand relates to the question of how consumers respond to a change in price. Will they cut back their purchases a lot or just a little when the price of an item rises?

Price elasticity of demand often depends on whether or not consumers can find an acceptable **substitute** for the product that is going up in price. When substitutes are plentiful, demand is more likely to be elastic because consumers have more freedom to adjust their spending decisions. They can choose to buy a comparable product at a lower price.

"I have discovered in 20 years of moving around a ballpark, that the knowledge of the game is usually in inverse proportion to the price of the seats."
Bill Veeck, team owner

But when there are few acceptable substitutes, demand tends to be inelastic because consumers don't have as many options. For example, if producers raise the price of fuel, consumers can try to drive fewer miles or adjust their thermostats, but there is a limit to how much they can cut their fuel consumption. And if the price of a product like medicine goes up,

consumers don't even have the option of cutting their consumption. There are no suitable substitutes for certain medicines, and taking the proper dosage is essential.

So what about sports? Although diehard fans may disagree, sports tickets are not among life's essential products, and at first glance there would seem to be plenty of entertainment substitutes—minor league sports, movies, concerts, outdoor recreation. But apparently enough fans/consumers still believe that a professional sporting event is a unique form of entertainment, so they are willing and able to spend more of their money to compete for the limited supply of tickets. And as long as demand remains strong, teams can continue to push up ticket prices.

Where did the money come from to fuel strong demand for tickets? Much of it came from customers at the high end of the income scale. During the 1990s, top earners—those in the upper 20 percent, and particularly those in the top 5 percent—saw their income increase sharply, thanks to a combination of stock market gains and rising earnings for high-yield workers.

According to Census Bureau figures, the average income for the top 20 percent of U.S. households went from $95,895 in 1991 to $105,945 in 1994—an increase of nearly 10.5 percent. And for the top 5 percent of U.S. households, average income went from $149,600 to $183,044—an increase of almost 22.4 percent.

Those customers, along with corporate customers and diehard fans, did not see minor league ball as an acceptable substitute for major league entertainment, so they continued to pay higher prices for tickets. After all, even the most talented minor leaguer will not impress a prospective client—or a ten-year-old child—the way Mark McGwire, Sammy Sosa, or Ken Griffey, Jr. will.

Sometimes there's just no substitute for the real thing.

C. What about Supply?

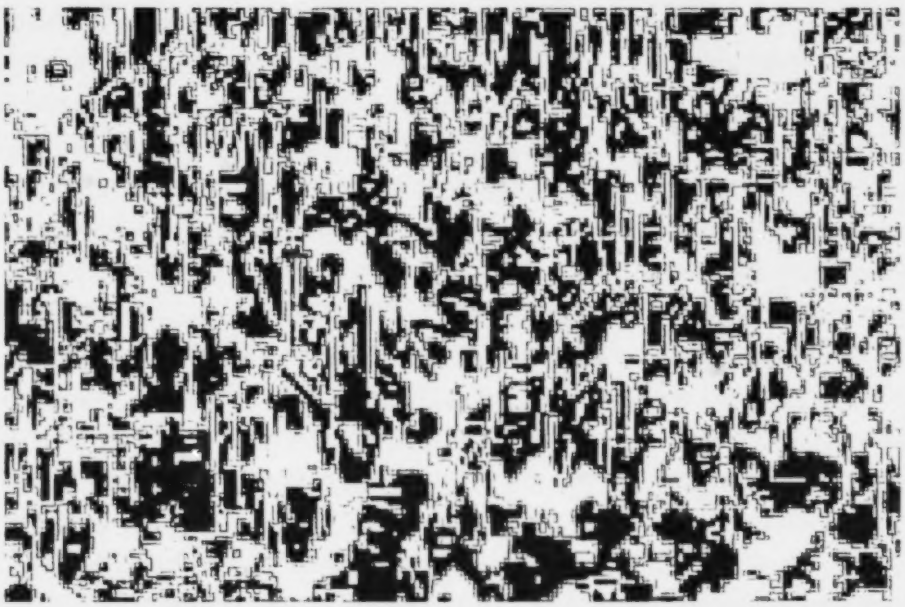
Supply is the other half of "supply and demand," and it has a big impact on ticket prices. Three things affect the supply of sports tickets:

- The number of seats in a ballpark
- The number of games in a season
- The number of teams supplying games

Number of Seats in Ballpark

Train a parrot to say "supply and demand," and you've created another economist.
An (old) economics joke

Under normal conditions, sellers are willing to supply additional quantities when prices rise. But the number of seats in a ballpark is fixed, and there is no easy way to make more tickets available when a team is winning and demand is strong. In other words, the supply of tickets to a professional sporting event is fairly *inelastic*.



Bat Day at Yankee Stadium, 1965.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

But the supply of *higher-priced* tickets is another story. Maybe owners can't easily expand the total number of seats, but they have other options. They can: 1) add high-priced luxury suites to an existing ballpark; 2) change the mix of existing seats so that there are more premium-priced "club seats;" 3) sell more seats as part of season ticket packages; and 4) sell personal seat licenses. (See [illegible].)

Note: What do all these options have in common? They are aimed at the high-end, high-revenue segment of the sports market, where demand is strong and money is plentiful.

The Number of Games in Season

In theory, sports leagues could increase the supply of tickets by scheduling more games. But in reality, adding games to the season is not a practical option, because demand varies widely from one market to another. Baseball tickets are scarce in Boston or Baltimore, but there are lots of empty seats in Minnesota and Montreal. And unlike many other products, the supply of pro sports cannot be tailored to meet the level of demand in a particular market. A movie distributor can choose to release foreign films only in big city markets where demand is strong, but a sports league has to schedule the same number of games for every team, regardless of how many fans the team is drawing.

There is also diminishing marginal utility to consider. How many games a week can a person watch and still have a life? At some point, there's the danger that a longer schedule won't hold fans' interest—especially in markets where the team is having a losing season.

And even if the demand for pro sports were strong in every market, the supply of games would be limited by the fact that athletes are human beings who can play only so many games before their bodies start to break down. Professional football players are lucky if they can get out of bed on the day after a game; playing more than one game a week is pretty much of a physical impossibility.

Number of Teams Supplying Games

Lots of cities would like to land a pro sports team, and there is no shortage of investors willing to put up the money for a new franchise. But increasing the number of teams isn't necessarily in a league's best interest. Sure, the owners of existing teams would be happy to split the hefty franchise fee they extract from a new team. But one of the things that makes a sports franchise so valuable is the fact that leagues tightly control the number—the supply—of teams. If the supply of franchises increases too quickly, existing franchises might lose some of their value.

Equilibrium

The market for sports tickets, or any other product, comes into balance—into **equilibrium**—when the quantity of tickets that fans demand equals the quantity of tickets that teams supply. Markets are said to be in balance when:

1. Sellers are satisfied with the quantity they are selling at a certain price.

   AND

2. Buyers are buying all they want at that price and would not want to buy more at a higher price.

But in everyday economic life, markets seldom, if ever, reach a state of equilibrium because supply and demand are continually changing.

During the 1990s, demand for sports tickets remained strong in most major markets, while the supply of tickets remained constant. More people with extra money to spend were competing for a fixed number of seats, and that's why ticket prices rose so much in major markets.

But in markets where demand was weak, ticket prices rose less. Why? Because it's tough to raise prices when fans aren't lining up to see the games.

D. Higher Salaries

Only a Contributing Factor

Is the cost of higher salaries being passed on to fans/consumers in the form of higher ticket prices? Of course it is.

Labor is a resource—a factor of production, an input—and if team owners have to pay more for labor, they will try to pass the additional costs on to fans. But the driving force behind higher ticket prices is strong demand, not high salaries.

A comparison between the Boston Red Sox and the Minnesota Twins illustrates the point. The Twins had the lowest average ticket price of any Major League Baseball team during the 1999 season: $8.46. If you want to know why, just look at the highlight clips of a Twins home game. The sight of all those empty seats will tell you everything you

need to know. Demand is so weak that popcorn vendors would outnumber fans if the Twins tried to raise ticket prices.

Now take a look at Boston. The Red Sox had the highest average 1999 ticket price in baseball: $24.05. That is more than two-and-a-half times what the Twins charge, yet sellout crowds at Fenway Park are not unusual. Demand for professional baseball in Boston is exceptional. Even in the dead of winter—three months before Opening Day—fans who brave their way through snow and ice to buy tickets at the Fenway Park box office often have to settle for the bleachers or deep right field.

How high will ticket prices go in markets like Boston or Baltimore? The answer depends on whether or not demand remains strong.

Inning 6: The Pro Sports Labor Market

Top sports stars are earning more money than top surgeons, and *average* ballplayers are signing multi-million dollar contracts. Has the world gone mad?

Well, believe it or not, the sports labor market is not as crazy as it seems. Team owners who shell out big bucks for superstars are acting rationally. (Whether or not they always spend their money wisely is another question.)

And superstars, who make more in one month than many fans earn in a lifetime, are sometimes underpaid. Inning 6 looks at why.

A. Is Anyone Worth *That* Much Money?

The hometown team has just signed its star pitcher to a six-year, multi-bazillion dollar contract. He is a top talent, a great box office draw, and, by all accounts, a nice young man who signs autographs with a smile.

"A homer a day will boost my pay."
Josh Gibson, Negro Leagues star

But no matter how you look at it, the young ace is making a lot of money for throwing a baseball. And there is no guarantee that he will ever deliver a World Series championship to the town's long-suffering fans.

In the world of modern professional sports, there's only one guarantee: Next season another superstar will sign an even fatter contract. . . .

Why do pro athletes make so much money?

The answer, once again, is related to supply and demand. Only this time, it's supply and demand in the labor market. Players are selling their skills and talents; team owners are the prospective buyers.

"You measure the value of a ballplayer by how many fannies he puts in the seats."
George Steinbrenner, Yankees owner and TV extra

The players' skills and talents—their labor inputs—are in great demand. Why? Because fans are willing to pay top dollar for a chance

to see the world's best players at work, and that produces tremendous revenue for team owners.

Rule Number One in the Sports Labor Market: When it comes to salaries, no profit-oriented owner will knowingly pay more than a player is expected to generate in revenue.

James Quirk and Rodney D. Fort, authors of *Pay Dirt: The Business of Professional Team Sports*, explain why:

Looking at things from the point of view of any team, we can calculate the *most* that a profit-oriented team would pay a player; it is the amount that the player would add to the team's revenue if he were signed. In the jargon of economists this is the player's *marginal revenue product*, which we will refer to as his *MRP*. The player's MRP is the most a team would pay a player because paying a player more than this would decrease team profits; on the other hand, signing a player for anything less than his MRP means that adding the player increases profits for the team.

Yes, owners and general managers sometimes misjudge a player's talent or throw away big money on a player who isn't right for the team. But here's the bottom line: An owner will pay a player millions of dollars only if he or she thinks the player will bring the team even more than that in revenues.

Quirk and Fort also offer a way to identify the *minimum* limit on a player's salary:

From the player's point of view the least he would be willing to accept as a salary offer to sign with a team is what he could earn in his next-best employment opportunity. . . . [E]conomists refer to this next-highest employment value as the player's *reservation wage*. If a team offers a player less than his reservation wage, the player would simply reject the offer and remain employed in his next-best opportunity.

"It's a business. If I could make more money down in the zinc mines, I'd be mining zinc."
Roger Maris, Yankee outfielder who first broke Babe Ruth's single-season homerun record with 61 in 1961.

The **reservation wage** for professional ballplayers changed dramatically during the 1970s when players won the right to bargain with other teams. Under the old system, one team owned a player's contract for life and was able to dictate salaries on a take-it-or-leave-it basis. If a player didn't like a team's offer, he had nowhere else to go. His reservation wage—his next-best

employment opportunity—was whatever he could earn outside of baseball, and for many players, that meant low-wage manual labor.

B. Five Things that Affect Salaries

The basics of the sports labor market are pretty straightforward: Owners (buyers) make salary offers based on how much revenue they think a player will add to the team. And players (sellers) make salary decisions based on what they think their talents are worth on the labor market.

But there are a few other points to keep in mind:

1. **Demand for pro athletes—especially superstars—has been fairly inelastic.** That's partly because there are no readily acceptable substitutes for pro athletes.

   In most businesses, owners can automate certain jobs. Team owners don't have that option. Maybe a computer can defeat a chess master, but how many computers or robots can hit a big league curveball? (And even if they could, would you really buy a season ticket to watch them do it?)

   Human substitutes don't fill the need either. Major League Baseball and the National Football League tried to end labor disputes by hiring replacement players, but the replacement product did not meet the standard of quality that fans expected from a professional team. Hardly anyone showed up for the replacement games—even after owners slashed ticket prices.

2. **The decisions that buyers and sellers make will help to determine the level of market prices (or salaries)**. When a team owner decides to pay a small fortune to a star shortstop, you can bet that other shortstops with similar statistics will be looking for more money when contract time rolls around. Every new blockbuster contract changes the labor market.

3. **The supply of players isn't as big as it seems.** There are thousands, maybe even millions, of people willing to supply their talents and skills in the sports labor market. But the number of people who even come close to possessing the required level of skill is much smaller—and they are the people that teams are actually competing for.

4. **The number of buyers and sellers influences the level of competition in any market.** When sports leagues expand, they also increase competition in the sports labor market. The number of teams (buyers) increases, but the number of top players (sellers) remains the same. It's a simple equation:

Sandy Koufax, one of baseball's all-time greatest left-hand pitchers, threw four no-hitters.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

League expansion = Greater demand for players = Stiffer competition for top talent = Higher salaries for superstars.

5. **Market size has an impact on how much a player earns.** All other things being equal, players who spend their most productive years in "big markets" like New York or Los Angeles will almost always earn more than players who spend their careers in "small markets" like San Diego or Cincinnati.

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C. Underpaid Superstars?

Every big money entertainment business runs on star power. Sports is no exception.

Superstars earn high salaries because they generate lots of revenue for their teams. They are the players fans pay to see—marquee players who draw spectators to games through a combination of exceptional talent and a certain "star quality" that is hard to define but easy to spot. Without them, pro sports would be less exciting and less lucrative.

Nevertheless, lots of people shake their heads over the super size of superstar salaries. And if you are one of those people, this next part will really have you talking to yourself:

If the market for professional athletes were perfectly competitive, superstars could probably earn more than they already do.

Two things prevent superstar salaries from being even higher than they are:

1. **The Amateur Draft**—Every year, pro teams "draft" (choose) the best college and high school athletes. The draft gives a team "exclusive rights" to a player for a certain number of years, and teams with the worst records get to choose first.

   The system is intended to prevent rich teams from signing all the best young prospects. But it also prevents players from shopping around for a higher salary until after they've spent the required number of years with the team that drafted them.

2. **The Limited Number of Buyers for a Player's Services**—The professional sports labor market has a relatively small number of buyers. In fact, it comes very close to being a **monopsony** market—a market with only one buyer. Players in each professional sports league have only three choices:

   - Sell their services to one of the teams in the league;
   - Play for a team in an overseas league, or;
   - Look for some other type of work.

If there were more leagues competing for top players, salaries might be even higher. When the American Basketball Association challenged the NBA for nine seasons during the late 1960s and early 1970s, competition for top college stars triggered a bidding war that benefited players in both leagues. Salaries went up and never came down, even after sparse crowds and lack of a national television contract forced the ABA to fold its tent.

Owners may fret over the high cost of attracting and keeping top talent, but the fact is that they are parting with their money willingly—if not always cheerfully or wisely—and they never pay more than they expect a superstar to generate in revenue.

In a sense, high salaries are a measure of how prosperous sports have become. If teams didn't have the money, they couldn't afford to pay as much as they do.

"The game has a cleanness. If you do a good job, the numbers say so. You don't have to ask anyone or play politics. You don't have to wait for the reviews."
Sandy Koufax, Ace Pitcher

D. Difference between "Average" and "Median"

The **average** salary for a Major League Baseball player went from $289,000 in 1983 to $1,567,873 in 1999. Not bad! No wonder so many fans think every player is a millionaire.

But the figures for **median** salaries tell a different story. In 1983, the median Major League Baseball salary was $207,500, and in 1999 it was $495,000.

Why the dramatic difference between *average* and *median*?

An *average* salary equals the total dollar amount for all player salaries divided by the number of players. A handful of huge salaries for superstars can make the average salary look very high.

Median salary numbers define the midpoint of the salary range. The 1999 median salary numbers tell us that half of all major league ballplayers earned more than $495,000 and the other half earned less.

A kid's game? Don't believe it! On his way to breaking Babe Ruth's record for career homeruns, Henry Aaron faced unimaginable stress.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

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Of course, a lot of people still believe that $495,000 is pretty good money for playing a "kid's game." And in a sense, they are right. Half a million dollars a year is nothing to sneeze at

"I used to love to come to the ballpark. Now I hate it. Every day becomes a little tougher because of all this. Writers, tape recorders, microphones, cameras, questions and more questions. Roger Maris lost his hair the season he hit sixty-one [homeruns]. I still have all my hair, but when it's over, I'm going home to Mobile and fish for a long time."
Henry "Hank" Aaron, during his quest to break Babe Ruth's record for most homeruns in a career

But baseball, or any other sport, is no "kid's game" at the professional level. The stress can be crippling, the travel is punishing, and the job security is negligible.

Think your report card or job performance review is stressful? How would you feel if the morning newspaper carried a daily critique of your performance? And imagine what it's like to make a crucial mistake while thousands of spectators gasp in horror, and millions of TV viewers throw snack food at their sets.

Maybe you think the big money would help you find a way to cope with the stress. Think again. The world of professional sports is downright Darwinian. Noted author and commentator Studs Terkel calculated that for every 70 prospects who sign a *minor league* baseball contract, only one makes it to the majors. And then there is always someone trying to take away the job.

E. Paying Dues and Earning Rent

Making it as a professional athlete is never a "sure thing," even for people blessed with extraordinary talent, drive, and ambition. Baseball players in particular, spend years "paying their dues" in the minor leagues earning only a few thousand dollars a season.

"I'll bet you don't know what is the first question Little Leaguers ask me: 'How much do you make?'"
Rocky Bridges, 1950s baseball player

The dollars-and-cents difference between the tiny salaries players earn as minor leaguers and the huge paydays they enjoy in the majors is known as **economic rent**. Here is another way to look at it:

- A player owns a resource—his exceptional talent.
- He is willing to supply that resource—that talent—in the minor league labor market for just a few thousand dollars a year because he hopes to make a fortune someday in the majors.
- Through a combination of skill, luck, and determination he finally makes it to the big leagues, where he signs a contract for a tremendous amount of money.
- The difference between the tiny amount he earned in the minors and the megabucks he earns in the majors is **economic rent**.
- He was willing to provide his resource—his talent—for a very small salary in the minor leagues. The huge salary that the major league team is now paying him to supply his talent is all gravy. In a way, economic rent is gravy.

F. Opportunity Cost and Trade-Offs: You Can't Necessarily Have It All

- Should you spend your entertainment dollars on a game or a concert?
- Should a team spend its money on a 30-year-old star pitcher or three talented young prospects?
- A superstar is very happy playing for a small market team, and by his own admission, he is making more money than he will ever need. Should he leave to sign with a team in New York or Los Angeles, where he will make phenomenal money and pick up lucrative endorsement deals?

Advertisers and self-help gurus would like us to believe we can "have it all," but, deep down, most of us know better. The size of our paychecks and the number of hours in a day force us to make trade-offs.

Opportunity cost is an economic concept that gets at the notion of trade-offs. Writer Susan Lee, in her book *Susan Lee's ABZs of Economics*, defines opportunity cost as "a measure of what could have been."

"Money often costs too much."
Ralph Waldo Emerson

The fact that we live in a world of limited resources means we can't "have it all." We have to make choices. And when we choose to commit a certain amount of money, time, or resources to one thing, we leave ourselves with less to devote to something else.

If you turn down four hours of overtime because you want to go to a party, you give up four hours of overtime pay. That's opportunity cost. You could have worked but you chose to go to the party instead. And you paid a price. You "bought" the leisure time with the overtime pay you turned down.

If a talented player decides to stay with his small market team for $3 million a year instead of jumping to a big market club for $5 million a year, the opportunity cost is easy to calculate. He's giving up $2 million.

Tony Gwynn knew he could have made more money in L.A. or New York, but the joy and satisfaction of playing in San Diego outweighed the extra cash. *Photo courtesy of the San Diego Padres.*

But the cost of making a choice does not always carry an explicit price in dollars and cents. Opportunity cost may be harder to calculate for things like "personal satisfaction" and "peace of mind," but it is no less

real. If a player leaves a city where his family is happy and the fans like him, he may pay a high price, even if he makes more money with the new team. His family may hate the new city. He may not click with his new teammates. The fans may boo him the first time he goes into a slump. Any of these things could make his life miserable.

Of course, most of the time players go for the "big payday." In that regard, they are not much different from the rest of us. But once in a while, a talented player will choose to stay with a team even though he has the chance to make more money in another market. And those players often turn out to be the happiest, best loved, and most respected of all.

G. Marginal Revenue = Marginal Cost: Breaking Up a Championship Team

A team owner who wants to make money—in fact, any profit-oriented business person—will be guided by the following principle:

Marginal Revenue = Marginal Cost (or MR= MC).

For those of you who are easily frightened by equations, let's break this one down and look at its parts.

Marginal revenue is the extra revenue—the increase in revenue—from selling one more unit of something.

Marginal cost is the extra cost—the additional cost—of producing one more unit of something.

Look at it in sports terms:

1. You are a team owner who believes that the best way to make a profit is to field a winning team.

2. During the off-season, you spend big money on talented superstars: a pitcher, a closer, a centerfielder, and a first baseman. They are all big names—marquee players that fans will pay to see.

3. The plan seems to work. Your "hired guns" win the World Series, and attendance goes up 33 percent for the season.

4. There's only one problem: Your team lost money on the season! Revenue went up, but not enough to cover the additional cost of hiring the superstars. The additional revenue did not equal the additional cost.

5. What does a profit-oriented owner do when marginal revenue does not equal marginal cost? Unload payroll. Sure, a team of young unknowns will lose games and draw fewer fans. But the young players will cost a lot less in salary, so the team won't need to draw as big a crowd every night.

Florida Marlins celebrating their 1997 World Series victory. Not long afterwards, owners dismantled the team. Sports purists were disappointed but the owners had made a rational business decision. *Photo courtesy of the Florida Marlins.*

H. A Rising Tide: Curt Flood Challenges the Reserve System

For nearly a century, baseball's reserve system forced players to stay with a team and accept whatever salary the owner offered. The lack of competition for star players kept salaries artificially low, which was just fine with team owners because they got to keep a larger share of revenue for themselves.

Then, in 1970, a player named Curt Flood teamed up with Marvin Miller, head of the Major League Baseball Players Association, and together they challenged baseball's reserve system.

Few athletes have had a greater lasting impact on the world of modern sports. Curt Flood paved the way for professional athletes to exercise the same right enjoyed by every other worker in a market economy—the right to choose where he would put his talents to work.

Read his story and decide for yourself if the excesses of the present are any worse than the inequities of the past.

Submitted for your consideration:

Imagine a world in which:

- You have to spend your entire career working for the same employer even if someone else is willing to pay you a lot more; and
- Your employer can ship you off to another city and force you to work for someone else.

Sounds like a cross between slavery and indentured servitude, doesn't it?

That's what Curt Flood thought. Flood played centerfield for the St. Louis Cardinals, and in 1969, after 12 good seasons in St. Louis, the Cardinals traded him to Philadelphia. (He found out about the trade from a reporter who called to ask for his reaction.) For a variety of reasons, he was dead-set against making the switch.

Money wasn't the problem. He had earned $90,000 for the 1969 season in St. Louis, and he would make a very respectable $100,000 if he played for the Phillies in 1970.

Flood's main objection was that he did not want to be treated like a piece of property. And that is exactly what he said in a letter to the Commissioner of Baseball, Bowie Kuhn:

Dear Mr. Kuhn,

After 12 years in the major leagues, I do not feel that I am a piece of property to be bought and sold irrespective of my wishes. I believe that any system that produces that result violates my basic rights as a citizen and is inconsistent with the laws of the United States and the several states.

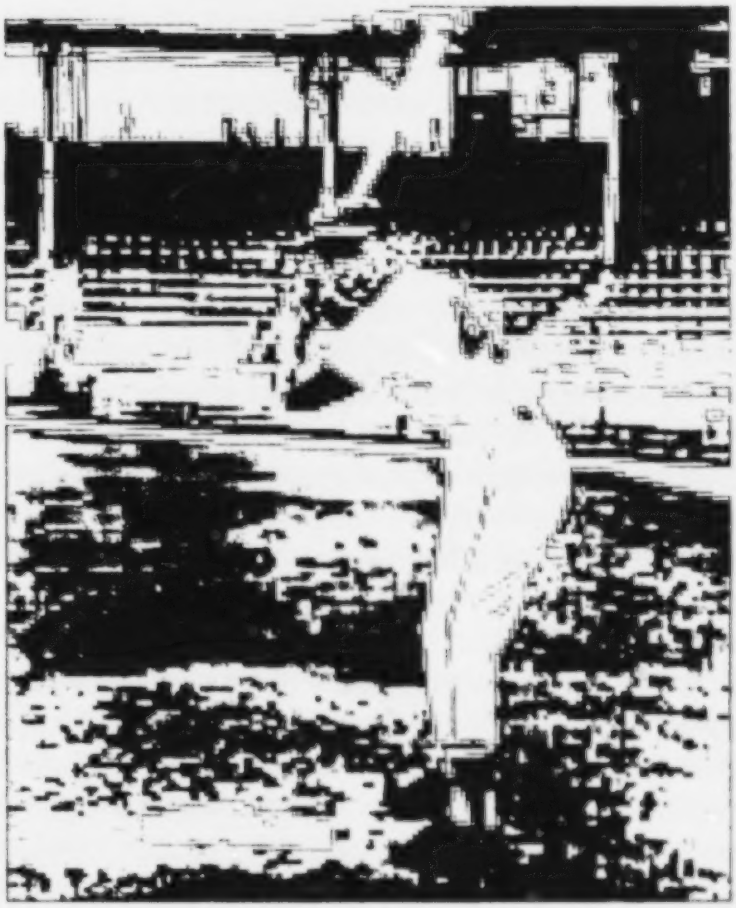
It is my desire to play baseball in 1970 and I am capable of playing. I have received a contract from the Philadelphia club, but I believe I have the right to consider offers from other clubs before making any decisions. I, therefore, request that you make known to all major league clubs my feelings in this matter, and advise them of my availability for the 1970 season.

Curt Flood

Commissioner Kuhn denied the request on the grounds that the St. Louis Cardinals had a legal right to assign a player's contract to another team—whether the player liked it or not. His decision guaranteed that there would be a showdown over baseball's reserve system.

Backed by the Major League Baseball Players Association—the baseball equivalent of a labor union—Flood took his case to federal court and then sat out the 1970 season so he could become a free agent. (Baseball's reserve system required a player to sit out an entire season before signing a contract with another team.)

While his case made its way through the federal court system, he tried to make a 1971 comeback with the Washington Senators. But the year of enforced idleness had taken a toll on his skills. After only 13 games in a Washington uniform, Flood retired from baseball.



Curt Flood.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

And he fared no better in court. Both the federal district court and the circuit court of appeals ruled against him, and on June 6, 1972, the United States Supreme Court upheld the lower court decisions by a vote of 5 to 3.

But Curt Flood and Players Association director Marvin Miller had taken the first step in a process that would alter the balance of economic power between owners and players. In 1975, a labor arbitrator granted free agency to pitchers Andy Messersmith and Dave McNally, and baseball's reserve system came to an end. For better or worse, the economics of professional sports would never be the same.

I. How Free Agency Happened: A Timeline

1954—Players vote to establish the Major League Baseball Players Association. The Association is the equivalent of a players union, but it is not particularly effective in helping players to make meaningful gains. The minimum salary for ballplayers was $6,000 in 1954, and eleven years later, it would still be $6,000.

1966—The Major League Baseball Players Association (MLBPA) hires Marvin Miller as its director. Miller was the former chief economist for the United Steelworkers Union.

1968—The Players Association and team owners negotiate their first written agreement—the Basic Agreement. It raises the minimum salary to $10,000 and provides for improved pension, health, and travel benefits. Most important of all, it establishes a formal procedure for resolving grievances.

1970—Players and owners negotiate the second Basic Agreement. The minimum salary will rise, in stages, from $10,000 in 1970 to $13,500 in 1972. The Agreement also establishes a mechanism for binding impartial arbitration.

1972—After a 13-day strike, players and owners reach a third Basic Agreement. (The strike is the first work stoppage in modern baseball history. But it won't be the last. There will be a 24-day lockout in 1976, a 50-day strike in 1981, a 2-day strike in 1990, and the marathon strike of 1994 that will result in cancellation of the World Series.)

The third Basic Agreement allows the Players Association to participate in the arbitration of grievances. This is the measure that will finally finish the reserve system.

1975—When the 1974 season ends, L. A. Dodgers pitcher Andy Messersmith and Montreal Expos pitcher Dave McNally are unable to reach contract agreements with their respective teams, so the teams automatically renew the unsigned contracts.

"We used to go to the racetrack after spring training practice in my day. Four of us would chip in 50 cents each to go to the two-dollar window. Yesterday I asked a player how he did at the track. He said, 'My horse won.' I said, 'How much did it pay?' The player said, 'No, coach, I didn't bet on the horse, I own it.'"
Mickey Vernon, coach New York Yankees, 1985

Andy Messersmith.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

Messersmith and McNally complete the 1975 season, but neither of them signs a contract, and at the end of the season they declare themselves "free agents." They argue that they are free to bargain with other teams because the owners' right to renew an unsigned contract lasts for only one year.

But the owners disagree, claiming that they have the right to renew a player's unsigned contract for as long as the player remains in the major leagues.

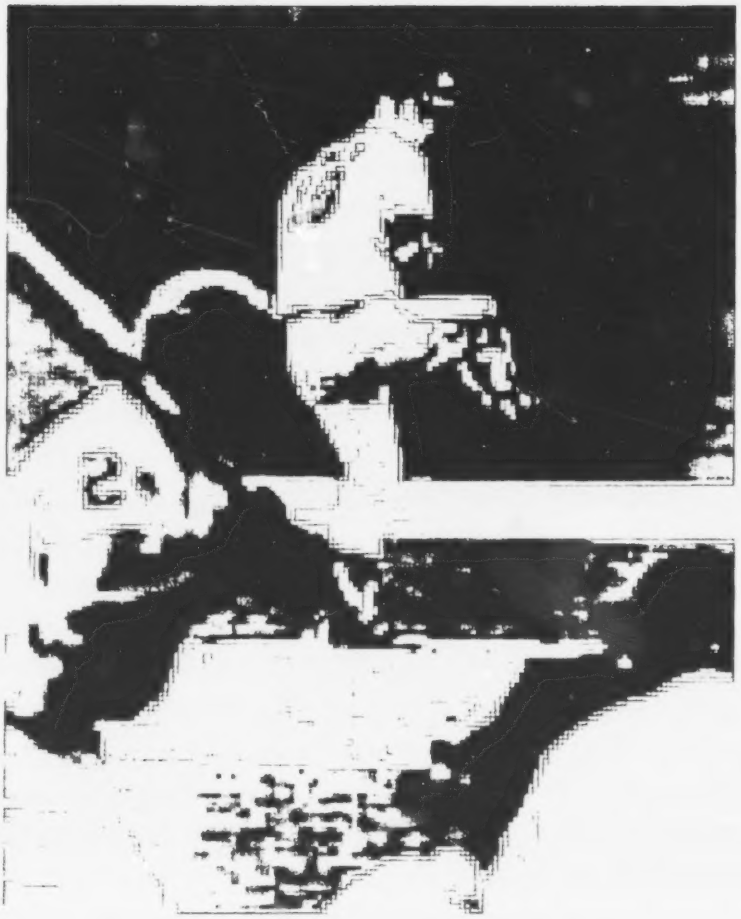
The disagreement goes to a three-member arbitration panel: the director of the Players Association, the director of the owners' Player Relation Committee, and an arbitrator from the office of Major League Baseball. The panel rules that Messersmith and McNally are eligible to become free agents. For all intents and purposes, the reserve system is finished.

For a detailed account of how free agency happened, read *A Whole Different Ballgame*, by Marvin Miller.

J. How the "Reserve Clause" Got Its Name

During the 1880s, the "reserve clause" became a standard feature of every major league contract, and for the next 80 years it shaped the economics of baseball by forcing players to stay with a team for life.

But why was it called the reserve clause? Here's the answer.



Dave McNally.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

"To many people the labor situation in baseball today [1991] seems bizarre and distorted, but, then, many things would seem bizarre and distorted if cut off from their history."
Bill James, Baseball statistician and sage

During the 1880s, baseball team owners were concerned about the economics of their game. Albert Spalding, owner of the Chicago White Stockings, sounded the alarm in 1881. "Professional baseball is on the wane," declared Spalding. "Salaries must come down or the interest of the public must be increased in some way. If one or the other does not happen, bankruptcy stares every team in the face."

Spalding's main worry was that star players were jumping from team to team in search of more money, and in the competition to sign them,

owners were driving up salaries. The salary situation was having a dual impact:

"Salaries must come down or the interest of the public must be increased in some way If one or the other does not happen, bankruptcy stares every team in the face."
Albert Goodwill Spalding, 1881.
Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.

1. Marginal teams—teams that were barely managing to stay in business—could not afford to pay higher salaries; and

2. The competition for top players was costing the owners too much money and diverting a large share of revenue from the owners to the players.

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Team owners decided to deal with the situation by entering into a "gentlemen's agreement" that allowed each team to "reserve" five players for itself. The owners agreed not to raid one another's reserve lists. And when they saw how successful the reserve system was in holding down salaries, they decided to make it a formal arrangement by adding a reserve clause to every professional ballplayer's contract.

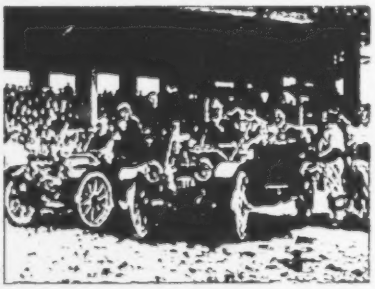
K. Going to Greater Lengths: How Contracts Have Changed

Contract negotiations used to be a lot like haggling over the price of a new car—only more intense. Owners and players sat across the table from one another and battled over every penny.

Management almost always had the upper hand because: 1) the reserve system prevented players from bargaining with other teams; and 2) most players lacked the negotiating skills for a head-to-head confrontation with owners and general managers.

But during the mid-1970s, the reserve system ended, and sports agents entered the picture. Contract negotiations would never again be the same.

Today, no player would dream of negotiating without an agent. And when superstars and agents get together, there's often more at stake than money. Whether they need the money or not, top stars usually go for all they can get because a big contract is a way of "keeping score"—a way of showing how valuable they are in relation to other players.



Star players Ty Cobb and Nap Lajoie each receive a new car in 1910—back in the days when superstars didn't already own a different car for each day of the week. *Photo courtesy of National Baseball Hall of Fame Library, Cooperstown, New York.*

Ditto for most agents. An agent who negotiates a fantastic deal for a high-profile star is in a better position to attract other lucrative clients: "See what I did for that guy? I can do the same for you." And of course, salary negotiations are also a way for agents to keep score. Their professional pride is on the line every time they match wits with an owner or general manager.

Players unions have a stake in high-profile salary negotiations, too, because they don't want to see the pay scale erode. In those rare cases when a superstar considers taking less money to stay with a small market team, chances are that the union (and the player's agent) will pressure him not to offer the team a "hometown discount."

"I am the most loyal player money can buy."
Don Sutton, Hall of Fame Pitcher

Degrees of Separation

Not only has the size of player contracts changed, so has the length. Owners used to favor one-year deals because they figured a "hungry" player would try harder. Only the biggest stars had enough leverage to bargain for more. But when free agency arrived, owners began to look at multi-year contracts as a way to bring some stability to their line-ups.

Superstar perks have changed, too. Top players used to flaunt their stardom by asking for special meals or demanding a single-room when the team traveled—all of which sounds almost quaint compared to today's star treatment. According to an article in *The Wall Street Journal*, contract perks in the late 1990s included private hotel suites, separate hotels, luxury boxes for family members, golf club memberships, and private jets to fly family members to games.

Are special perks and superstar salaries affecting the delicate balance between "team play" and individual concerns? Matt Bloom, an assistant professor of management, thinks it's a definite possibility—at least in big league baseball. He looked at payrolls and performance for the period covering 1985 to 1993 and found that baseball teams with wider pay ranges did not perform as well as those with relatively equal pay structures.

He suspects that, "The costs of acquiring this year's star may negate the benefits of hiring last year's star." In other words, this year's high-priced star could go into a funk when the team pays next year's high-priced star even more.

Inning 7: Can Pro Sports Survive Prosperity?

"Ka-ching!" January 2000—More than 130 million American television viewers sat around the national campfire to watch Super Bowl XXXIV. Advertisers paid an average of $2 million for 30 seconds of commercial time during the broadcast.

President William Howard Taft at a baseball game, 1910.
According to legend, the seventh inning stretch originated when President Taft, a man of ample portions, stood up to get comfortable, and everyone around him rose as a sign of respect. Nice story, but it's not true. References to the seventh inning stretch date back to 1869.
Photo courtesy of *Prints and Photographs Division, Library of Congress.*

"Ka-ching!" Michael Jordan topped the 1999 *Forbes* Power 100 list, which measures a combination of "income and media buzz." Oprah placed second; former President George Bush, Sr. rounded out the field at number 100.

"Ka-ching!" After the 2000 season, shortstop Alex Rodriguez left the Seattle Mariners to sign a 10-year, $252 million contract with the Texas Rangers. *USA Today* calculated that a worker earning minimum wage would take 23,525 years to earn $252 million.

"Ka-ching!" In early 1999, the NFL's Washington Redskins franchise sold for $800 million.

Question: If times are so good, why has there been so much economic conflict in modern pro sports?

Note: "Ka-ching!" is a non-technical term for the sound of a cash register.

A. Winners and Losers: Revenues, Payrolls, and Competitive Balance

If ever there was a "Golden Age of Sports," this could be it.

"I believe salaries are at their peak, not just in baseball, but all sports. It's quite possible some owners will trade away, or even drop entirely, players who expect $200,000 salaries. . . . There is no way clubs can continue to increase salaries to the level some players are talking about."
Peter O'Malley, 1971 former owner, Los Angeles Dodgers

Old-timers might try to tell you that no one will ever match the heroes of yesteryear, but that's just the way old-timers talk. The fact is that modern players are bigger, stronger, and faster than ever. (You could look it up.)

And when it comes to dollars and cents, times have never been better. TV revenues are strong, franchise values are sky-high, and salaries are breathtaking.

So, if things are that good, how come everyone in pro sports always seems to be arguing over money?

During the 1980s and 1990s, player strikes and owner lockouts cost both sides a fortune in lost salaries and revenues. And if that wasn't enough to kill the golden goose, there were other squabbles that pitted "rich" owners against "poor" owners and superstars against "middle-class" players.

Meanwhile, fans just shook their heads and wondered why the millionaires and billionaires of pro sports couldn't find a way to share the wealth.

Lack of money hasn't been the problem. By any reasonable measure, the overall pool of wealth is big enough to make owners, players, media moguls, and sports agents richer than most of us ever dream of being.

But wealth is unevenly distributed in the world of pro sports. Some teams earn much more revenue than others, and they can afford to outspend everyone else in the bidding war for high-priced superstars.

The Sports Revenue Gap (Millions of Dollars)

	Highest Revenue Team	Lowest Revenue Team	Ratio
MLB: 1997	N.Y. Yankees $144.7	Montreal Expos $43.6	3.3x1
NBA: 1997-98	Chicago Bulls $112.2	Denver Nuggets $37.8	3.0x1
NFL: 1997	Dallas Cowboys $118.0	Jacksonville Jaguars $66.8	1.8x1
NHL: 1997-98	Detroit Red Wings $80.1	Carolina Hurricanes $25.1	3.2x1

Source: *Forbes* magazine.

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During the 1998 season, one New York Yankees superstar earned as much as the entire 25-player roster of the Montreal Expos! And the Yankees still had plenty of money left to acquire the additional skilled players that every winning team needs.

"Poor" teams just can't keep pace. If they splurge on a superstar, then they can't afford to sign anyone else except inexperienced kids or washed-up veterans. Either way, there's not much chance of making it to the play-offs. And in the world of pro sports, one thing is certain: Fans won't pay top dollar—or even show up—to support a team that never has a chance to win.

That's why owners worry that the lack of "competitive balance" between rich teams and poor teams will kill the entertainment value of pro sports. Their collective nightmare goes something like this:

The same wealthy, big market teams go to the playoffs every season. Fans in low revenue markets get discouraged and stay home because they know their teams don't have a prayer. Even fans in prosperous markets begin to lose interest because a steady diet of wins can be almost as tedious as an endless string of losses. Ticket sales and TV ratings sag, advertisers begin to lose interest, revenues drop, and franchise values weaken.

It's a sobering prospect, but players don't buy it. The way they see it, owners are using competitive balance as an excuse to recapture a share of the revenues they lost when the reserve system ended.

Players also point out that competitive balance isn't exactly a new issue. In the 36 seasons from 1920 through 1955—when owners were absolute rulers and there was still a reserve clause to hold down salaries—New York teams won half of baseball's pennant races. (The Yankees won 21 American League pennants, and two other New York teams, the Giants and the Dodgers, won a combined total of 15 National League pennants.)

"Anyone, especially any child, can root for a champion. What's tough about loving perfection? Miss Universe always gets a date."
Thomas Boswell, *Cracking the Show*

Weak franchises and perennial losers are nothing new either. There have always been teams like the old Washington Senators: "First in war, first in peace, and last in the American League."

B. Trying to Narrow the Gap: Salary Caps, Revenue Sharing, and Luxury Taxes

Here's a fact that goes a long way towards explaining why owners and players always seem to be at each other's throats:

In 1974—one year before baseball's reserve system ended—team owners were keeping more than 80 percent of league revenues for themselves, but by the end of the 1990s, their share had fallen to less than 50 percent, while the players' cut had increased every season.

Owners would like to recapture some of the revenue that has shifted from their pockets to the players' pockets. Players are determined to keep that from happening. Each side is convinced that it is right, and neither is willing to budge very much.

The way owners see it, *they* are entitled to a healthy share of revenue because *they* are the ones who organize the leagues and take the financial risks that go with operating a team. Without *their* capital and organizational skill the professional sports product would be a lot less valuable.

But players argue that *they* are the feature attraction. Fans buy tickets and turn on TV sets to watch *them* perform. *They* are bringing in the money, and if revenues rise, *they* want *their* share of the bigger pie.

When the two sides sit down at the bargaining table to talk about money and competitive balance, they almost always end up arguing over three main options:

- A salary cap
- Revenue sharing
- A luxury tax

A **salary cap** is just what it sounds like: a limit on team payrolls (and sometimes on individual salaries). In theory, a cap promotes competitive balance because it prevents rich teams from using their wealth to attract all the top talent. Owners love the idea because it allows them to recapture revenue by limiting their labor costs. But players don't even like to hear the phrase "salary cap." Why, they ask, should there be a ceiling on what they earn when there is no ceiling on

the earnings of doctors, lawyers, CEOs, movie stars, rock musicians—or team owners?

Players prefer the **revenue sharing** option, which requires rich teams to share some of their wealth with teams that are struggling. Revenue sharing appeals to players because it doesn't cost them anything. Most of the burden is on owners, and that's why owners in every league except the NFL tend to shy away from it. (See [illegible].)

The third option for addressing the imbalance between sports markets is a **luxury tax**, which is intended to: (1) discourage wealthy teams from spending so much on salaries, and (2) redistribute wealth from the richest teams to the poorest.

"A man who knows he's making money for other people ought to get some of the money he brings in. Don't make any difference if it's baseball or a bank or a vaudeville show."
George Herman "Babe" Ruth

A luxury tax seems to be the one option that's mutually acceptable to owners and players, but it isn't particularly effective. Rich teams can afford to treat it as just another cost of doing business—the sports equivalent of a parking ticket. Poor teams are happy to get the extra revenue. And superstars don't care because it doesn't really affect their salaries.

Of course, the fact that a luxury tax is ineffective might also explain why it's the one option that everyone can agree on.

C. Strikes and Lockouts: Things Aren't Always What They Seem to Be

The battle over sports revenues has taken some interesting twists and turns in recent years. Owners and players still sit on opposite sides of the bargaining table, but owners don't always agree with one another, nor do players.

Consider the 1994-95 baseball strike. On the surface it might have looked like just another fight between labor and management. But there was a lot more to it than that.

Here are the basics.

Owners agreed on one thing. They all wanted a salary cap to control labor costs and address the competitive balance issue.

Players were bitterly opposed to a cap—mainly because they saw it as the first step in a return to the days when owners were in complete control.

Congressional pages settle a "dispute," 1922.
Photo courtesy of *National Baseball Hall of Fame Library, Cooperstown, New York.*

The players pushed for more revenue sharing between rich teams and poor teams. But that wasn't really an option because the rich owners were unwilling to part with more than a fraction of their wealth.

Because the owners were unable to agree on any other strategy, they decided to pick a fight with the players union. Their ultimate objective was to force players into accepting a salary cap.

But the players refused to buckle, and the strike finally ended when a relatively small group of influential owners pressed for a settlement.

Why were the players able to outlast the owners? Two reasons:

1. The players union was able to convince its members that the benefits of sticking together outweighed the risk and the cost of being on strike; and
2. Team owners didn't have a strong enough common interest.

The owners of prosperous teams decided that the battle for a salary cap was costing them more than they could possibly hope to gain.

Denied!

The 1998-99 NBA lockout had a very different outcome.

At the heart of the dispute, wrote David Warsh of the *Boston Globe*, was the "inability to share out $2 billion in overall NBA revenues among 29 owners and 400 players."

When the lockout began, players were getting 57 percent of the league's revenues; owners wanted to roll that figure back to 53 percent. The lockout ended after both sides split the difference and settled on 55 percent.

"Baseball is too much of a sport to be a business and too much of a business to be a sport."
Phil Wrigley, Chewing gum heir and owner of the Chicago Cubs from 1932 to 1977

But the length and bitterness of the lockout took many people by surprise. NBA owners, executives, and players thought they had come up with a formula for peace and prosperity when they pioneered the salary cap concept in 1984.

But by the late 1990s, the cap had lost its effectiveness. The annual team cap had been allowed to mushroom from $3.6 million in 1984 to $26.9 million in 1997-98. And on top of that there was a loophole that allowed teams to re-sign their own players at any price. One example says it all: The Chicago Bulls were able to exclude Michael Jordan's entire $31 million paycheck from their 1997-98 ceiling.

By the end of the 1997-98 season, NBA owners were ready to try something drastic. They voted to lock players out of training camps and even went so far as to set a deadline for canceling the entire season.

Their stated objective was to reclaim a "fair share of the revenues," and they managed to prevail because (1) they were willing to throw their undivided support behind NBA Commissioner David Stern, and (2) the players union was unable to convince its members that standing together was worth the cost of losing an entire season's paycheck. Much of the pressure to reach a settlement came from middle-class players and rookies who were beginning to wonder why they should endure the economic impact of a lockout when the issues at stake mainly affected the earnings of superstars.

Winners Share

The NFL has been the most successful at sharing the wealth and smoothing out the imbalance between markets. Its history of cooperative action dates back to the early 1960s, when team owners agreed to give NFL Commissioner Pete Rozelle enough authority to convince, cajole, and coerce individual franchises into cooperating for the common good.

Today, television and licensing revenues are shared equally, and gate receipts are shared generously, 60 percent for the home team and 40 percent for the visitors. The league also has maximum and minimum team payroll limits—no more than $64.3 million and no less than $55 million during the 1998-99 season.

The results of the NFL's cooperative approach are plain to see. Pro football tops all other sports in the revenues it generates from TV agreements and the sale of licensed merchandise, and the gap between its richest and poorest teams is by far the narrowest of all four leagues. NFL franchises thrive in small markets such as Green Bay, Wisconsin (pop. 102,000+) and in otherwise marginal markets such as Pittsburgh, where the professional baseball and hockey teams are struggling and there's no NBA presence.

But even in the NFL, the owners' interests are diverging and cooperation is beginning to break down. Newer owners, who paid top dollar for their teams during the 1990s and borrowed heavily to finance their purchases, are chafing under the old share-and-share-alike arrangement. Some are pressing to keep a larger share of the revenue their teams generate. And at least one owner has made separate advertising and licensing deals with competitors of official NFL sponsors and licensees.

Of course, none of this sits well with league officials and longtime owners. They prospered under the old system, and they are trying their best to preserve it. Whether or not they will succeed is anyone's guess.

D. Go Figure: The Difficulty in Measuring Team Revenue

There's a long history of mutual mistrust between owners and players. Not only do they have a hard time sharing the wealth, they can't even agree on how much money they're fighting over!

If an owner claims to have financial difficulty, players raise their eyebrows and ask to see the team's books. But the books often stay closed because most teams are privately held businesses rather than publicly traded corporations.

Publicly traded corporations—businesses that sell shares of stock to the public—are legally required to disclose detailed financial information to shareholders and prospective investors. But most teams are privately held businesses, which are owned by an individual or a fairly small group of individuals. They are under no obligation to share their financials, so most of them don't.

And even when the books are open, owners and players often disagree over the numbers. To find out why, let's revisit a concept from Inning 4:

Profit = (Total Revenue) - (Total Cost)

The concept sounds simple enough until you start to think about how to define revenues and costs.

There are lots of perfectly legal ways to make profits seem smaller than they might actually be. The tale of Wayne Huizenga and the Florida Marlins illustrates just how complicated things can get.

"You go through the *Sporting News* for the last one hundred years, and you will find two things are always true: You never have enough pitching and nobody ever made money." *Donald Fehr, Executive Director, Major League Baseball Players Association.*

Wayne Huizenga was said to have the best business sense in baseball—which may or may not be a compliment. He was a billionaire who made his fortune in waste disposal and video rentals, and when he founded the Marlins, he was determined to run the team according to sound business practices.

During their first season (1993), the expansion Marlins drew three million fans, and everyone thought fortune had smiled on Huizenga once again. But the 1994 baseball strike sent attendance plummeting to 1.9 million. And in 1995, only 1.7 million fans paid to see the Marlins.

After another disappointing season in 1996, Huizenga set out to improve attendance by opening his wallet. He spent heavily on free agents and pushed the Marlins' payroll from $31 million to $54 million.

The end result was a "good news/bad news" story. The good news was that attendance jumped to 2.3 million, and the Marlins won the 1997 World Series. Wayne Huizenga's money had bought competitive success and made the Marlins a fan favorite.

The bad news? According to Huizenga, his team had lost more than $30 million on the season.

How could that happen? Economist Andrew Zimbalist wrote an article for *The New York Times Magazine* (October 18, 1998) that explained how the Marlins figured their financial losses.

Hook, Line and Sinker—The 1997 Marlins

Revenues		Costs	
Ticket sales	$23.9 million	Payroll	$53.5 million
Broadcasting	23.2 million	Team operations	18.9 million
Concessions	1.8 million	Player development	5.1 million
Other	10.0 million	Scouting	5.1 million
		Latin American operations	0.6 million
		Stadium expenses	5.0 million
Total	$58.9 million	**Total**	$88.2 million

Compiled by Andrew Zimbalist—Reprinted from *The New York Times Magazine*, 10/18/98.

According to Zimbalist, the Marlins' 1997 financial losses did not reflect revenues credited to Pro Player Stadium, the Huizenga-owned sports facility where the Marlins (and Huizenga's NFL team, the Miami Dolphins) played their games.

Those revenues included:

- $16.5 million from luxury suites and club seats
- $1 million from the stadium-naming rights for Pro Player Stadium
- $3.9 in revenues from the stadium parking lot
- $6 million from signs and other advertising at Pro Player Stadium
- $3 million from souvenir and merchandise sales at the stadium
- $5 million in stadium expenses, which Huizenga was, in effect, paying to his own company

Zimbalist also calculated that food and beverage concessions may have been understated by as much as $7.6 million. Add all those things together, and the Marlins' 1997 finances don't look so bad.

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It is important to note that Zimbalist's figures are estimates. But that gets back to our original point: Determining a team's true financial condition is a tricky proposition.

E. Is There Really Any Such Thing as a "Poor" Team?

There is a way to gauge a company's financial condition without seeing its books. Just look at the price people will pay to own it.

In pro sports, that means looking at franchise values, which are high and going higher. A few examples from the 1990s will tell you almost all you need to know:

1991: Major League Baseball owners approve the addition of two new franchises—the Colorado Rockies and the Florida Marlins. Each of the new franchises pays a $95 million entrance fee.

1992: The San Francisco Giants are sold for $100 million.

1993: Peter Angelos pays $173 million for the Baltimore Orioles.

1994: Robert Kraft buys the NFL New England Patriots for $162 million

1995: Owners approve the addition of two new baseball franchises—the Arizona Diamondbacks and the Tampa Bay Devil Rays. Each of the new franchises pays a $130 million entrance fee.

1997-1998: Peter O'Malley sells the Los Angeles Dodgers to Rupert Murdoch's News Corp. for $311 million, or $350 million, depending on how you figure it. O'Malley's father, Walter, had purchased the late, lamented Brooklyn Dodgers for $1 million in 1950 and then moved the club to Los Angeles in 1958.

1998: A group of investors pays $530 million for the NFL's new Cleveland Browns franchise.

1999: Just when you thought franchise values couldn't get much higher, the NFL's Washington Redskins franchise sells for $800 million. The Redskins had finished their 1998 season with a losing record and hadn't made the playoffs in six years.

Those are the numbers. Now here's the question: Who would pay hundreds of millions of dollars for a troubled business?

The Greater Fool: Investing or Speculating?

"There was a time when a fool and his money were soon parted, but now it happens to everybody." *Adlai Stevenson, Presidential candidate, 1952 & 1956*

Rising franchise values almost make owning a pro sports team look like a "can't lose" proposition. Seems like the trick is to buy a franchise and wait for someone else to come along and offer a pile of money for it.

But that's not entirely true. To find out why, let's focus on baseball.

In early 1999, the New York Yankees had an estimated franchise value of $700 million, while the Montreal Expos franchise was worth an estimated $130 million. A quick glance at the numbers for both teams helps to explain the difference.

Team	1998 Attendance	1998 Payroll	Total 1997 Revenues	1997 Media Revenues
Yankees	2,955,193	$65.7 million	$144.7 million	$69.8 million
Expos	914,909	$8.3 million	$43.6 million	$18.5 million

The Yankees are a high profile, high revenue franchise with a proud tradition. And their local TV revenues reflect the fact that they play their home games in New York—the biggest, richest media market in the United States.

The Expos, by contrast, are a small market team with sparse attendance and unimpressive local TV revenues. And while Montreal is a beautiful, vibrant city, it doesn't make anyone's list of "great baseball towns." Nor would anyone ever confuse its crumbling ballpark with the "Field of Dreams."

Add all that together, and it is easy to see why a prospective buyer would pay a much higher price for a big market, high revenue team like the Yankees.

When you get right down to it, a sports franchise is an asset—a form of property that has value to its owner. And the value of any asset—a sports team, a house, an office building, or a share of stock—depends

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mainly on how useful or valuable it is to its owner, either at the present time or in the future.

When investors offer to buy a team, they usually base their offer on how much revenue they expect the team to generate in the future. Sellout crowds, strong TV ratings, and a nice stadium all help to provide a healthy revenue stream and increase the value of a franchise.

But with the selling price of sports franchises rising so quickly, it's time to wonder if buyers are speculating rather than investing in a revenue-producing asset. Are owners counting on the fact that a "greater fool" will always come along to pay more for their franchises than they did?

Tough to say. The $530 million price tag for the Cleveland Browns sounded awfully high until someone paid $800 million for the Washington Redskins.

F. Is It Time for True Competition Off the Field, Too?

Strikes, lockouts, holdouts: Why is there so much economic conflict in sports?

Economists James Quirk and Rodney Fort think the market power of leagues is to blame. They contend that the leagues' monopoly profits (monopoly rents) have become "the prize package" at the center of most disputes.

The NBA, NFL, NHL, and Major League Baseball are not actual monopolies. (In fact, only Major League Baseball is exempt from federal antitrust laws.) But the "Big Four" have been very successful at limiting competition and maximizing revenue. Whether they're pressuring local politicians for a new stadium or negotiating with media executives for a bigger TV contract, pro sports leagues enjoy tremendous bargaining power because they have the market to themselves.

"Eliminate that monopoly power," say Quirk and Fort, "and you eliminate almost every one of the problems of the sports business."

The authors of *Pay Dirt* and *Hard Ball* propose a solution: bring about true business competition.

They call for a Justice Department antitrust action to break up each of the existing leagues—MLB, the NBA, the NFL, and the NHL—into four independent leagues, each with roughly eight teams. The leagues would compete against one another for everything—players, TV contracts, franchise locations, and fans. There would be no more territorial monopolies, so, in theory, any city that could support a team would have one, and the most lucrative markets would attract a cluster of competing teams. A very limited antitrust exemption would permit the competing leagues to coordinate post-season playoffs and championships.

Quirk and Fort believe that the introduction of market forces would narrow the difference between "have" and "have not" teams by reducing the revenue imbalance among league cities. Three or four teams competing for TV revenues and gate receipts in the New York market would make the "Big Apple" more like the "Twin Cities" in terms of revenue potential, and as the revenue gap narrowed, so would the payroll gap. Quirk and Fort also argue that cities would feel less pressure to provide stadium subsidies, because if an existing team threatened to move, another team would be free to take its place.

"A baseball club is part of the chemistry of the city. A game isn't just an athletic event. It's a picnic, a kind of town meeting."
Michael Burke

At bottom, say Quirk and Fort, eliminating sports monopolies would shift power "from the insiders—owners and players—to the rest of us—fans and taxpayers." If team owners and general managers are compelled to make decisions in a competitive market environment, fans will reap the benefits.

The argument is powerful—in terms of economic theory, public policy, and popular appeal. Introducing more economic competition to the pro sports business would almost certainly diminish the market power of sports leagues and return a measure of control to fans and local officials.

But don't expect competition to be a cure-all. The appeal of pro sports hinges on a mix of intangibles. On one level, fans are consumers in search of the best value for their entertainment dollars. But on another level, they are "willing saps" with a strong attachment to the home team. Yes, they like the action and excitement of pro sports, but they also go to a game because it offers them a sense of being connected to the past—their own past and the distant past. Some teams—the Cubs, the Red Sox, the Redskins, the Knicks, the Maple Leafs—might

almost be immune to competition because there's such a strong emotional link between them and their fans.

And there's no guarantee that reducing the level of league profits will put an end to strikes and lockouts. Owners and players have argued over money since the days of high-wheeled bicycles and handlebar mustaches, when the main bones of contention were health insurance, pension plans, and $1,000 raises. Splitting the loot has always been a source of conflict in pro sports, and that isn't likely to change—regardless of how much loot there is to split.

Sometimes, fighting over money can be a sport in itself—especially when big egos collide.

Inning 8: International Pastimes

American sports leagues—like many other American businesses—used to focus almost entirely on the domestic market. Most of the players were homegrown, too.

But since the 1980s, the NBA, NFL, NHL, and Major League Baseball have developed a more global outlook and a decidedly international flavor:

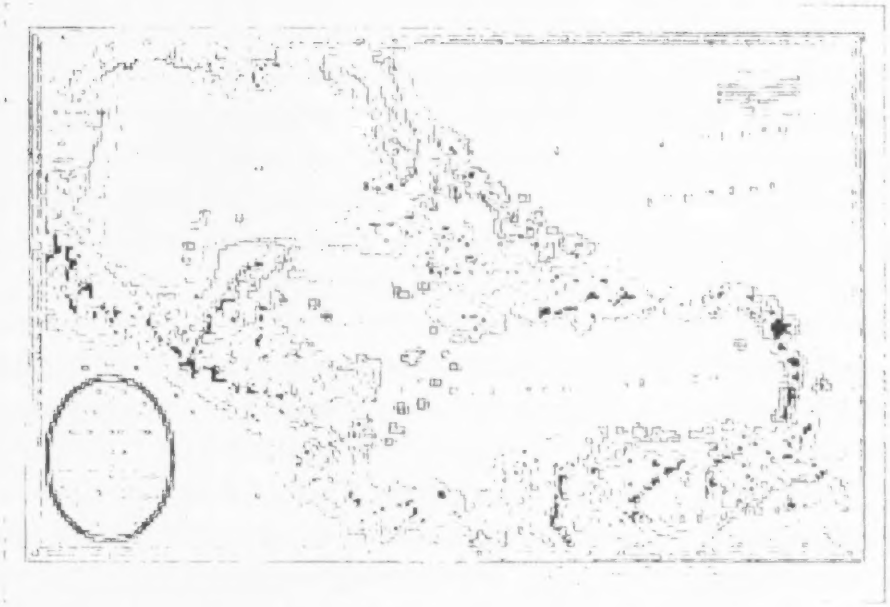
- More than 6 billion people inhabit planet earth, and sometimes it seems as if half of them are wearing NBA apparel. The league has done a masterful job of moving into the global marketplace.
- Pro football is trying to broaden its international appeal with the six-team NFL Europe. A respectable crowd of 40,000 showed up to watch the Frankfurt Galaxy vanquish the Barcelona Dragons in World Bowl '99. (Isn't it ironic that NFL *Europe* doesn't use Roman numerals?)
- After the Soviet Union collapsed, hockey players from Russia and the former Eastern Bloc moved to the NHL, where they became a major presence. Five Russians helped the Detroit Red Wings win the 1997 Stanley Cup—the city's first in 42 years.
- During the 1998 baseball season, 235 players from 18 different countries were listed on major league rosters. They drew new fans to the ballpark and attracted a sizable international TV audience.

A. Domestic Talent Shortage?

Fact: The percentage of foreign-born major league baseball players nearly doubled from 11.3 percent in 1988 to 19.8 percent in 1998.

Why are there so many foreign-born players in America's national pastime?

The shortage of homegrown baseball talent has a lot to do with it. Many of the best American athletes are opting for careers in the NBA or the NFL, where they don't have to wait as long to earn top money.



Caribbean Basin countries are a major talent pool for professional baseball.
Photo courtesy of Geography and Map Division, Library of Congress.

Young baseball players often spend years in the minor leagues before they enjoy a big payday. It's a grueling apprenticeship of long bus rides, short money, and depressing apartments. And maybe worst of all, there's the uncertainty that an injury or a bad break might end a young minor leaguer's career before he ever makes it to "The Show."

By comparison, basketball and football players have an easier time. They serve their apprenticeships in college, where they live in the nicest dorms, eat the best food, and enjoy the acclaim of everyone on campus. They can even get an education at the same time. (More professional baseball players are now coming out of college, too, but most of them still spend at least a season or two in the minors.)

Baseball is caught in a squeeze. Not only is domestic talent in short supply, but the demand for players is greater than ever because Major League Baseball added four new franchises during the 1990s: the Florida Marlins, the Colorado Rockies, the Arizona Diamondbacks, and the Tampa Bay Devil Rays.

So baseball is doing what American business has always done when faced with a labor shortage. It's relying on immigrants. Major league scouts now search the globe for new talent.

And the foreign-born players—most of whom come from Latin America, the Caribbean Basin, and the Pacific Rim—are doing what

immigrants to America have always done. They are filling jobs that might otherwise go unfilled, adding new skills to the talent pool, and helping to increase the overall level of prosperity.

B. Brothers Hernandez: Market Economy vs. Command Economy

One of the biggest stories related to the globalization of baseball involves the growing number of players from Cuba. Cubans are among the world's most ardent baseball fans—according to legend, a young pitching hopeful named Fidel Castro once had a major league tryout. And Cuban national teams have sometimes approached the talent level of the American major leagues.

Washington Post sports columnist Tom Boswell calls Cuba the "Lost Gold Mine" of baseball, and major league executives see it as a talent pool equal to the Dominican Republic. But since the early 1960s, Castro has done his best to prevent the island's top players from making the 90-mile trip to the American major leagues.

A few began to make their way out of Cuba during the mid-1990s. One of them, Florida Marlins pitcher Livan Hernandez, was voted the 1997 World Series MVP. Then in 1998, Livan's older half-brother, Orlando "El Duque" Hernandez, fled Cuba in a 19-foot boat and survived to sign a four-year $6.6 million contract with the New York Yankees. (The *Yankees*! How's that for irony?)

Shortly before "El Duque" made his escape, *Boston Globe* reporter Steve Fainaru did a fascinating piece on the Hernandez brothers. The following excerpts highlight the stark contrasts between a market economy and an economic system that relies on central planning by government officials:

HAVANA–Orlando "Duke" Hernandez is a chain smoker these days, a weekend softball player who chugs around the Cuban capital in a friend's 24-year-old Lada [Russian car]. He earns 200 pesos a month, about $8.75, working as a rehab counselor at a psychiatric hospital near his one-room cinder-block home.

Until recently, the Duke was one of the finest amateur pitchers in the world, but his world has imploded. The Cuban Sports Ministry banned him for life last year for allegedly planning to follow his younger brother, Livan, who defected in 1995 to play professional baseball in the United States.

"Sometimes the hitter gets a hit, sometimes I strike them out, but in neither case does anyone die."
Orlando "El Duque" Hernandez

As Livan, 22, pitched for the National League pennant last week with the Florida Marlins—a millionaire rookie with a Miami Beach apartment, a $75,000 Mercedes, and a walk-in closet full of shoes—he and his brother had become leading actors in an escalating struggle that has turned baseball into political theater.

The conflict pits Cuba's Communist government, which is desperately trying to protect the "noble character" of its powerhouse sports system, against U.S.-based agents dangling thick wads of cash, political freedom, and an opportunity to play for talent-starved major league teams. . . .

[T]he two brothers exist at the extremes of the economic and political systems that govern their lives. After a leaguewide bidding war four months after his defection, Livan—who in Cuba had earned $5 a month, lived for 15 years in a fifth-floor walk-up, and rode a Chinese-made bicycle or one of the country's hulking buses to practice—received a four-year, $4.5 million contract from the Marlins.

Hyper-capitalism nearly buried him, according to his friends and handlers. He gained 43 pounds gorging himself at McDonald's and Wendy's. His spending sprees were limitless. In the first year after signing his contract, he went through cars every three months, including a $40,000 Dodge Viper, a $130,000 Mercedes convertible, a $65,000 Porsche, and a $100,000 Ferrari. . . .

When asked to define what freedom meant to him, he heaved an impatient sigh. "Freedom is a word that every Latino and every American knows," he said. "It means the same in Spanish as it does in English. It's the freedom to do whatever you want to do. This is the point, nothing more and nothing less." . . .

One Saturday last month, while Livan was tearing up the National League, seven cows looked on from behind the backstop as the Duke lined up at second base for his neighborhood team, Rio Verde, at an overgrown diamond near Lenin Park.

When an aluminum bat the players were using snapped in half, the Duke pulled his team off the field while someone drove off in search of a replacement.

"Game suspended for lack of bats!" shouted the Duke, feigning an announcer's voice.

"How romantic," said a teammate sullenly.

"Hope—that's what I have for breakfast every day," the Duke said later that day. "It's what gets me out of bed every morning. I'm not going to die without playing baseball again. There's no way. You can put that down as my credo."

Note: On June 3, 1998, Orlando Hernandez stepped onto the mound at Yankee Stadium and pitched the Yankees to a 7-1 win over the Tampa Bay Devil Rays.

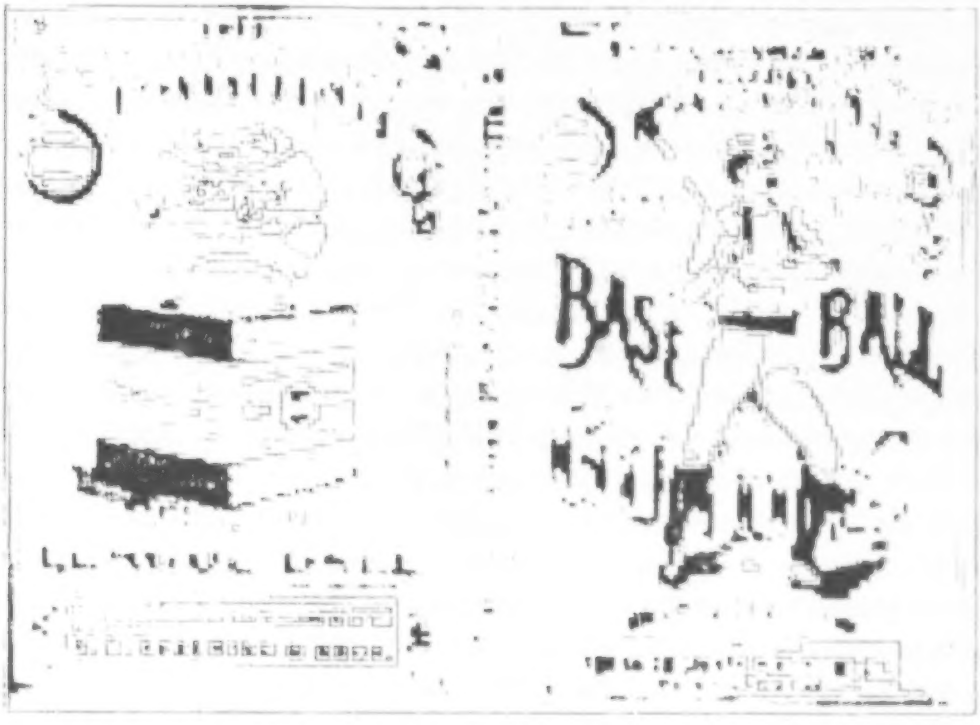
C. Comparative Advantage: Doing What You Do Best

Go to your local sporting goods store, and look for a baseball glove stamped "Made in the U.S.A." If you find one, it will be beautifully crafted and cost at least three times more than the very good gloves from Korea, Taiwan, or the Philippines. Guess which glove most parents will NOT buy for their Little Leaguer or softball player.

And it isn't just baseball gloves. Other countries manufacture a wide range of decent quality sporting goods for the American recreational market—everything from backyard volleyball sets to inexpensive swim fins.

Lower labor costs give foreign manufacturers an advantage in the production of low- to moderately-priced sporting goods. Baseball gloves are an excellent example.

Most of the baseball gloves in American sporting goods stores eventually end up on the hands of tee-ball toddlers, Little Leaguers, and slow-pitch softball players. Ever notice what happens to a lot of those gloves? Some are lost or stolen; others are exposed to the elements, flung in anger, gnawed by the family dog—and worse. Which is why moms, dads, and recreational players would rather not spend a small fortune for a baseball glove. Most are looking for a decent-quality glove at a price they can afford. In other words, they are looking for the typical glove manufactured in Korea, Taiwan, or the Philippines.



Cover of Spalding's Official Base Ball Guide, Spanish-American Edition, 1903
Photo courtesy of Prints and Photographs Division, Library of Congress.

Do U.S. producers have the know-how and the capability to produce baseball gloves? Yes. Can they do it as cheaply and efficiently as manufacturers in Korea, Taiwan, and the Philippines? Generally speaking, no.

Korea, Taiwan, and the Philippines enjoy a **comparative advantage** in baseball glove production because they can manufacture, ship, and sell the gloves at a lower cost than other countries can—a lower cost *compared to* or *relative to* manufacturers in other countries. That's why it makes more economic sense for the United States to import baseball gloves and concentrate on producing things it can turn out a lower relative cost—things like top-quality golf clubs and high-performance sleeping bags that can withstand the rigors of Mt. Everest.

When it comes to high-end, high-tech sporting goods, the United States enjoys a comparative advantage. American manufacturers are able to produce top-of-the-line skis, tennis racquets, snowboards, golf clubs, skateboards, surfboards, and bicycles at a lower relative price

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than their foreign competitors. Some of these items carry a very high price tag, but U. S. manufacturers can still produce and sell them at a lower relative cost than most foreign manufacturers.

Bottom line: The United States enjoys a relative cost advantage in the production of high-end, high-tech sporting goods. Korea, Taiwan, and the Philippines enjoy a relative cost advantage in the production of low- to moderately priced sporting goods. So it makes economic sense for each country to concentrate on what it can produce at a lower relative cost and trade for what another country can produce at a lower relative cost.

A Comparative Advantage in College Hoops

Comparative advantage also applies to regions within the same country. For example, a university town in the Midwest or the South might never be able to support an NBA franchise, but it can certainly support a college basketball team. So instead of wasting resources on trying to attract pro teams, small market areas might be better off specializing in the production of college sports, while big markets specialize in the production of pro sports.

And if you look around, that's exactly what is happening. Many of the college powerhouse teams—University of Kansas, University of Kentucky, University of North Carolina—are in small market areas, and most of the thriving pro teams are in big market areas. But the small market and big market regions are able to "trade" sports via television, and everyone benefits. The supply of high quality sporting events increases, and fans in every region of the country are able to enjoy (consume) a wider range of topnotch college and professional games.

D. Absolute Advantage: Nobody Does It Better

International trade isn't limited to raw materials and finished products. Countries can also trade ideas and symbols.

In fact, when it comes to exporting the symbols of American popular culture, the United States enjoys an **absolute advantage**. No other country can do it better, or even come close.

The trappings of American pop culture—movies, music videos, CDs, TV shows, and fast food—enjoy enormous global popularity. Why? Because they offer a connection to a way of life that, for better or worse, is very attractive to a large segment of the world's population.

Elvis, an American icon, 1956.
Photo courtesy of Prints and Photographs Division, Library of Congress.

When consumers in Thailand, Mexico, and the Dominican Republic spend their money on American soft drinks or NBA apparel, they aren't just buying tangible objects. They're buying symbols and ideas, too. (In fact, many of the objects and items of apparel that feature U.S. trademarks and logos are often manufactured outside the United States.)

Dr. James Naismith in Japan. International trade isn't limited to raw materials and finished products. Countries can also trade ideas, services, and symbols.
Photo courtesy of Naismith Memorial Basketball Hall of Fame Library.

Professional sports is a prime example. Teams like the Los Angeles Dodgers, the New York Yankees, and the Chicago Bulls have a growing international base of fans. The Dodgers and the Yankees have lots of fans in such baseball hotbeds as Japan, Korea, Taiwan, the Dominican Republic, Nicaragua, Mexico, and Cuba. And when Michael Jordan was in uniform, the Bulls were a powerful draw on all seven continents.

But not everyone on the planet who wears an NBA jersey or watches the World Series via satellite is an avid fan. The games, the superstars, and the team apparel enjoy growing worldwide popularity because they are also highly visible symbols of American pop culture—a fact that is not lost on people like media mogul Rupert Murdoch.

Murdoch knows a thing or two about the power of symbols. He paid more than $300 million for the L.A. Dodgers, in part, because the team is a global brand name. The Dodgers provide him a vehicle for capturing a larger share of the international media market, and they offer international fans a connection to the land of backyard barbecues and two-car garages

Inning 9: Final Wrap-Up

There seems to be a growing distance—emotional and financial—between sports fans and their "heroes." Fans, especially young fans and families, are finding new outlets for their leisure time and entertainment dollars.

Yet, when all is said and done, people keep going to ballgames or following the action on TV, because the games still reward them by giving them what they seek.

A. Minor League Prices, Major League Fun

You are standing in the Dairy Queen parking lot, wearing a Red Sox cap and savoring a chili dog, when a voice from behind says, "Wrong hat."

You turn around to see a middle-aged dad standing next to a middle-aged mom, and for a second you think you're seeing double because they're wearing identical outfits: black walking shoes, white tube sox, plaid shorts, and a short-sleeve shirt, all topped by what looks like a Red Sox cap, except that there's a **P** where the **B** ought to go.

"You need to get a hat like ours," they chime in unison, "a Pawtucket Red Sox hat." Then they start telling you all about the "PawSox"—the triple-A minor league affiliate of the Boston Red Sox. And they are so enthusiastic that you can't help but listen. After a while they turn to leave, but not before they make you promise to take your kids to a PawSox game.

A month later, your whole family sets out on the 45-minute drive from Boston to McCoy Stadium, where the August evening will deliver one pleasant surprise after another. The parking is free, the traffic is manageable, the crowd is civilized, and your $5 box seats are directly behind first base. (Is this heaven? No, it's Pawtucket, Rhode Island.)

The game turns out to be an absolute gem. Pawtucket wins in the bottom of the ninth on a grand slam by third baseman Louis Aguayo. Everyone goes home smiling.

Total cost for the whole memorable evening: About the same as going to a movie.

Fishing for autographs at McCoy Stadium in Pawtucket, Rhode Island.
Photo courtesy of the Pawtucket Red Sox.

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The Boom in Minor League Sports

After some very lean seasons during the 1950s, '60s, and '70s minor league baseball is back! Fans have rediscovered that they can have fun at the ballpark without emptying their wallets.It is a classic example of substitution: When major league ticket prices soared, fans—especially families and middle-income fans—began to find their way back to minor league ballparks where they could buy affordable tickets to watch the "stars of tomorrow" play their hearts out.

How much more affordable are the minors? Just look at the price difference between the Boston Red Sox and the Pawtucket Red Sox. According to *Team Marketing Report*, an average ticket to a 1999 home game at Fenway Park cost $24.05. Forty miles to the south, at Pawtucket's McCoy Stadium, the best seats in the house were selling for $7.00 apiece. Do the math: A family of four would pay a total of $28 for great seats at McCoy (and the parking is free) versus $98.20 at Fenway (where parking costs at least $10 and is anything but hassle-free). Granted, there are no big-name stars in Pawtucket, nor are your friends likely to be impressed when you tell them you went to a PawSox game. But are superstars and snob appeal worth four times the cost? A lot of fans are beginning to wonder.

The Hometown Connection

The charms of minor league games are not limited to low-cost tickets. People are also drawn to the relaxed, fan-friendly atmosphere and the overall absence of "major league attitude."

The minors seem to make it easier for fans to reconnect with the games and the players. To understand why, just show up early for a PawSox game and watch the young fans who "fish" for autographs by lowering plastic milk jugs from the stands. The scene will tell you almost all you need to know.

Or make your way to the Massachusetts seashore, where the Cape Cod League has maintained a hometown connection between fans and players for more than 100 seasons. Every summer, its teams host some of the country's most talented college ballplayers. A list of former Cape Cod Leaguers reads like a ballot for the Major League All-Star Game—Mo Vaughn, Albert Belle, Chuck Knoblauch, Frank Thomas, Nomar Garciaparra, and Carlton Fisk, just to name a few.

But the quality of play isn't the only attraction. Fans in Massachusetts seaside resorts like Hyannis, Falmouth, and Orleans feel a genuine affinity for the ballplayers who represent their towns. The players live with local families and work summer jobs at local businesses. Townspeople—both year-round residents and summer visitors—think of the Cape Cod League players as "our kids."

It's exactly the way everyone thinks sports used to be—maybe even better. Admission is free, the bats are wood, and the kids play hard. Add to that the delicious cool of a July evening on Cape Cod plus the company of people you enjoy, and you come very close to earthly paradise.

Sure, the games may not mean as much as they do in the big leagues. But when you get right down to it, none of the games—not even the "big ones"—mean anything more than what the fans bring to them.

B.Two Entrepreneurs Give Fans a Fun Product at an Affordable Price

Entrepreneurs are a diverse bunch. Some are innovative and unconventional, others are "pluggers." The one thing they have in common is that they organize a business and assume the risk of running it.

By anyone's definition, Miles Wolff and Mike Veeck are entrepreneurs. They are also largely responsible for the revival of minor league sports.

Miles Wolff and the "Other Bulls"

Miles Wolff began working in baseball as a $600-a-month jack-of-all-trades/general manager in the Atlanta Braves farm system. When he paid $2,417 for the Durham (North Carolina) Bulls franchise in 1978, his goal was to keep the team alive so he could continue to have a job in baseball. He borrowed money from family and friends, convinced local officials to make $25,000 worth of badly needed repairs on homey (decrepit) old Durham Athletic Park, and used his own good baseball sense to make the Bulls into a thriving local success.

"We got the sun out now, we got the fresh air, we got the teams behind us . . . so let's play two."
Ernie Banks, a.k.a. "Mr. Cub", Hall of Fame Shortstop

Saint the Pig.
Photo courtesy of Saint Paul Saints and Michael Martin.

Then, in 1987, Hollywood turned Wolff's team into a national sensation when a film called *Bull Durham*—starring Kevin Costner, Tim Robbins, and Susan Sarandon—revealed the quirky pleasures of minor league baseball to audiences in packed moviehouses across the country. Sales of Durham Bulls merchandise skyrocketed, and so did the value of Wolff's investment.

From a financial standpoint, the Durham Bulls were a runaway success, but Miles Wolff was beginning to wonder if he hadn't lost something along the way. The politics of trying to build a new stadium and the increasing economic tensions with Major League Baseball were taking a toll on him.

So in 1990, Wolff sold the Durham Bulls for an estimated $4 million. Then he set out to rediscover the sense of enjoyment and satisfaction that had drawn him to minor league baseball in the first place. He did it by taking the lead in organizing the Northern League, an independent baseball league in the upper Midwest.

At one time, all minor leagues had been independent. They were just smaller—or "minor"—versions of the major leagues. But during the

1920 and 1930s, Branch Rickey, general manager of the St. Louis Cardinals (and later the Brooklyn Dodgers), convinced the Cardinals' ownership to buy minor league teams and use them to develop players for the big league club. The system caught on, and independent teams, which received no major league financial subsidies, faded from the scene.

The Northern League's first few seasons during the early 1990s were touch-and-go, in part because its teams received no financial subsidies from the majors. Some of its franchises soon folded, but the league survived, and a few of its teams have enjoyed solid success.

The most notable Northern League success story has been the St. Paul Saints franchise, owned by Mike Veeck, son of the late Bill Veeck (see _____). Mike had inherited his father's love of baseball and his flair for making the game fun. Maybe his Saints lacked the drawing power of big league superstars, but Mike Veeck knew how to attract fans and show them a good time. Crowds delighted in the sight of Saint the Pig delivering baseballs to the home plate umpire.

And that was only the beginning. Stefan Fatsis, author of *Wild and Outside*, a marvelous book about the founding of the Northern League, describes Mike Veeck's formula for success:

The goofier the gimmick the better. Hence Saint the Pig. Hence Irish Night, in which the Saints wore green caps and ran around green bases. Kitchen Appliance Night. Man on the Moon Night. Mary Tyler Moore Appreciation Night. They brought fans to the ballpark and gave the ballpark over to fans. The experience in St. Paul was participatory, from the grandstand barber—a gimmick begun by Bill Veeck in Comiskey Park—to the barrage of witty commentary from Al Frechtman and his wittingly hip musical tastes. (The team's unlikely theme song was the Sammy Davis, Jr. rendition of Isaac Hayes's achingly dated theme from the movie *Shaft*.)

Veeck helped to create an atmosphere that teetered on the edge of anarchy—but was always purposeful. The scene could appear spontaneous, but in fact much was carefully organized, on time schedules prepared before each game.

C. Some Things Never Change

Pro sports has been remarkably resilient. Fans have come back after every strike or lockout.

But each dispute has taken its toll. You can hear it in the voices of fans who call the all-sports talk radio stations. Some are angry; others are disenchanted. Many are bewildered.

"I think about the cosmic snowball theory. A few million years from now the sun will burn out and lose its gravitational pull. The earth will turn into a giant snowball and be hurled through space. When that happens it won't matter if I get this guy out."
Bill Lee, Pitcher and Philosopher, on dealing with pressure

There seems to be a growing distance—emotional and financial—between fans and their "heroes." Not so long ago, sports stars were a lot like the rest of us. They worked during the off-season to make ends meet, and they lived in the same neighborhoods as their fans. Sometimes they even played stickball or shot baskets with the neighborhood kids. But those days are gone forever.

Tastes have changed, too. Fans, especially young fans, have been finding new outlets for their leisure time and entertainment dollars: the Internet, popular music, and the movies. In fact, the day might be coming when baseball, basketball, football, and hockey won't even dominate the sports sector of the entertainment market. Fans are increasingly attracted to pro wrestling, NASCAR, soccer, and the X-Games—in large part because the stars of those sports seem so much more accessible.

Ted Williams taking the Navy oath in 1942, when there didn't seem to be as much distance between sports stars and the rest of us. *Photo courtesy of The Boston Public Library, Print Division.*

Yet, despite all the changes, people keep going to games or following the action on TV because, when all is said and done, sports reward fans by giving them what they seek. Those who look for greed, selfishness, and meanness will find all three in abundance. But if fans are able to look past all that, they might also experience something they'll talk about till the end of their days—the sight of Bobby Orr soaring above the ice after his "flying goal" wins the 1970 Stanley Cup, or the everyday beauty of Junior Griffey's smooth, sweet swing.

"It's what you learn after you know it all that counts."
Earl Weaver, former manager, Baltimore Orioles

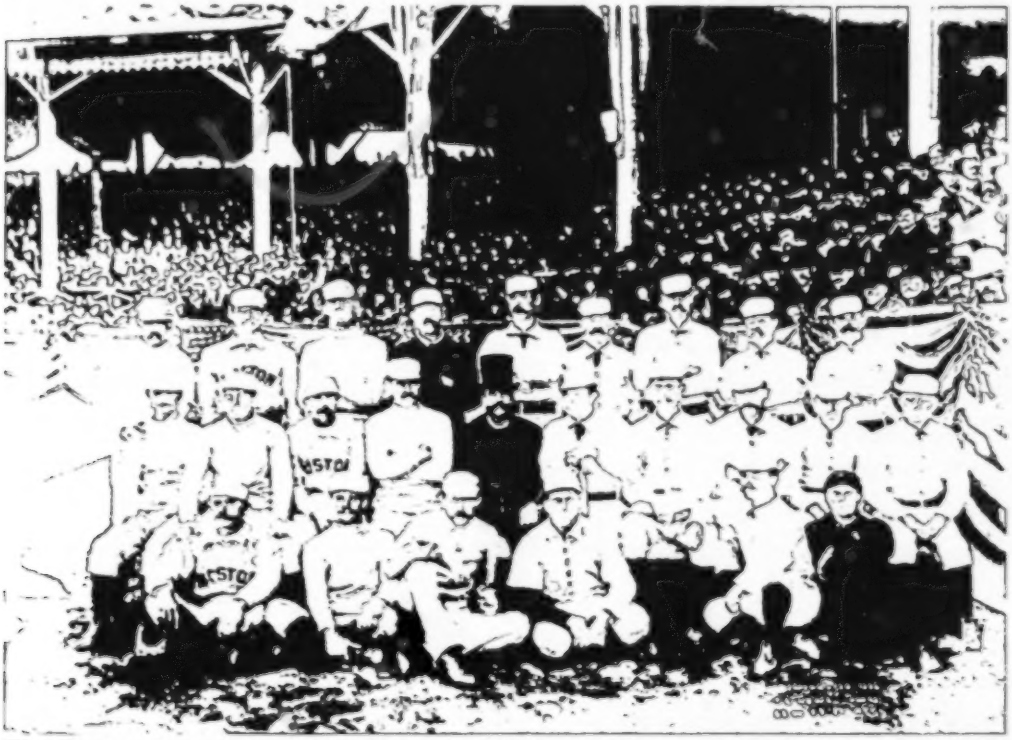
And if nothing memorable happens on the field, on the court, or on the ice, our games offer us the chance to pass a few pleasant hours in the company of people we enjoy, or the opportunity to savor a season like the summer of 1998 when all anyone wanted to know was whether or not Mark or Sammy had "hit one today."

Sharing a laugh at Fenway, 1940s. Even if nothing memorable happens on the field, our games give us a chance to gather in a public place and celebrate the things we still have in common. *Photo by Leslie Jones, courtesy of The Boston Public Library.*

Team Photos

Seems as if everyone wants to be a superstar these days. The phrase "team player" has become almost a backhanded compliment, on a par with calling someone a "nice guy." Which is too bad, because a team with the right blend of skills and "chemistry" is a truly remarkable thing.

The following collection of photos is a tribute to teams. Some have won a permanent place in the record books; others are local legends that hold a place only in the hearts of those who played for them or cheered them on.



The Boston Beaneaters, Opening Day, 1886.
Photo courtesy of Prints and Photographs Division, Library of Congress.

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Baseball Team of the *U.S.S. Maine*. On the night of February 15, 1898 the battleship *Maine* exploded and went to the bottom of Havana Harbor with heavy loss of life. The only member of the ship's baseball team to survive the explosion was J.H. Bloomer (standing, left). *Photo courtesy of Prints and Photographs Division, Library of Congress.*

The Vassar Resolutes Baseball Club, 1876.
Photo courtesy of Special Collections, Vassar College Library.

Men's and women's baseball teams, Colorado, sometime between 1890 and 1910.
Photo courtesy of Western History/Genealogy Department, Denver Public Library.

Albuquerque Indian School Baseball Team, 1911. ***Photo courtesy of National Archives-Rocky Mountain Region.***

The 1927 New York Yankees—still considered to be one of the greatest teams in sports history. ***Photo courtesy of the National Baseball Hall of Fame Library.***

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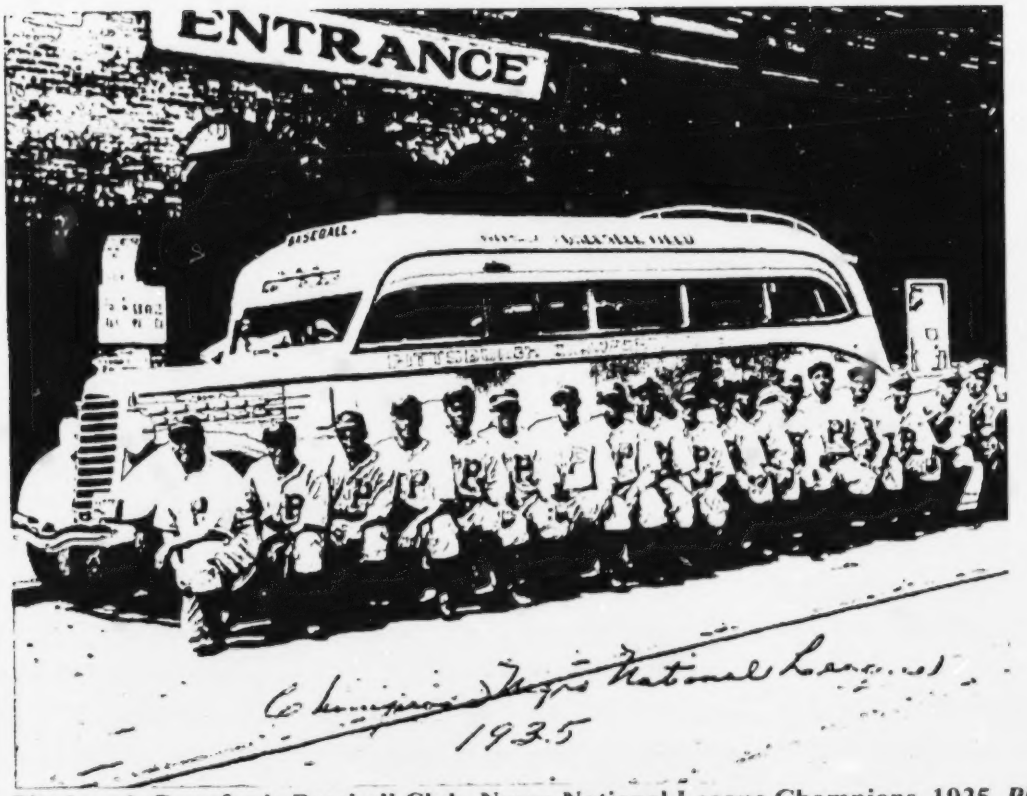

Pittsburgh Crawfords Baseball Club, Negro National League Champions, 1935. ***Photo courtesy of the National Baseball Hall of Fame Library.***

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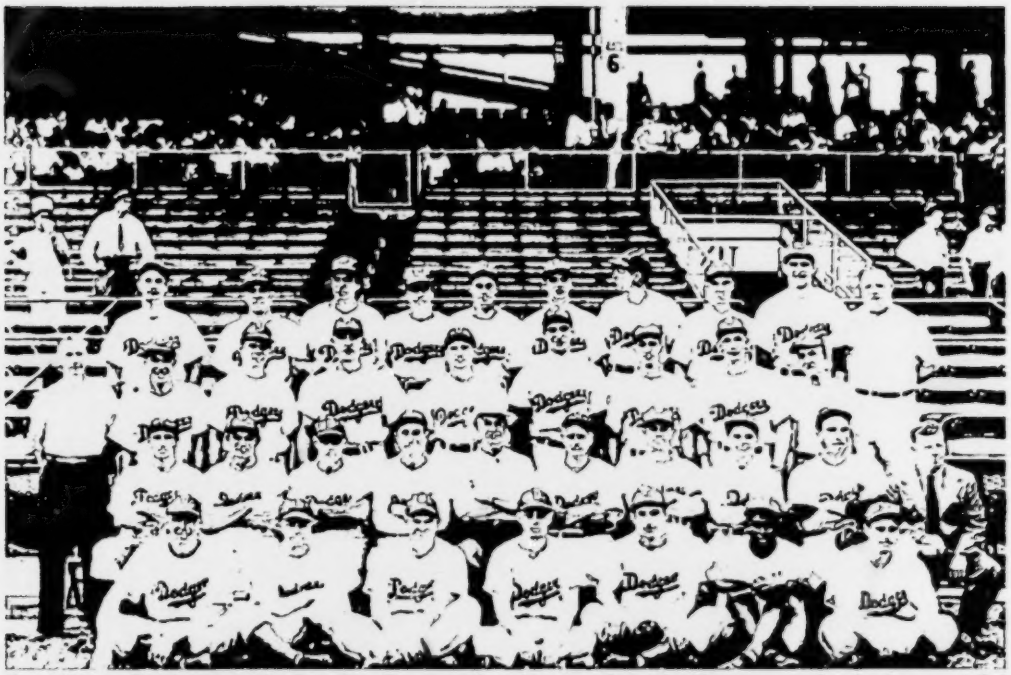
Japanese-American kids playing baseball while interned at the the Manzanar (California) Relocation Center during World War II. ***Photo courtesy of National Archives, Still Picture Branch, College Park, Maryland.***



Brooklyn Dodgers, 1947—the first major league baseball team to include an African-American player—Jackie Robinson. ***Photo courtesy of the National Baseball Hall of Fame Library.***

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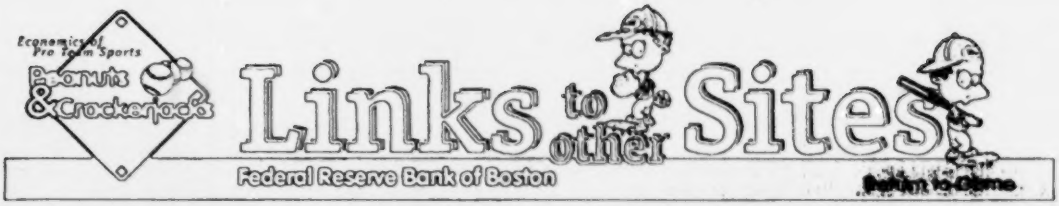

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